



IRAN AFTER KHOEINI

# Doubts cloud future for Tehran

The government is vulnerable, Scheherazade Daneshkhu writes

AYATOLLAH Khomeini's death came at an awkward moment for the Iranian leadership. He died just as the Government was publicly debating the question of who should succeed him, thus making the task exceptionally difficult for the men responsible for filling the void.

The qualified choice of President Khamenei, who is not high-ranking in clerical terms, as Khomeini's replacement appears to have been a precipitate measure taken at an emergency meeting of the Assembly of Experts, the 83-man body established to choose Khomeini's successor.

The announcement will have been designed to end the uncertainties regarding the succession. Khamenei has been President since 1980 and is a respected figure who in recent years has appeared to support firmly the Islamic Republic.

The move does not however, solve two fundamental and inter-related problems caused by the absence of Khomeini's dominant personality and unquestioned religious leadership within the country. One is the question of who is to hold effective, as opposed to titular, power in Iran. The other concerns the future of the Islamic state as an ideological entity.

When Ayatollah Khomeini occupied the position of spiritual leader, outside and above the realm of temporal power, the day-to-day administration of the country rested with the president and the Majlis, but Khomeini's authority meant that the last word was always his. This dual power structure has always been a problem.

Without him at the helm, the

government is vulnerable. Ayatollah Khomeini's designated successor since 1985, Ayatollah Hossein Ali Montazeri, who was forced to resign only 10 weeks ago, was accused by Ayatollah Khomeini and his son Ahmad of yielding to liberal and dissident tendencies.

Soon after his resignation, the authorities took steps to change the country's first Islamic constitution. A 25-man committee is now working on the constitutional revisions. A referendum approving these changes - as well as presidential elections - is due to be held on August 18.

Under Iran's constitution,

the country's spiritual leader is the representative of the twelfth Imam of Shism who disappeared in the ninth century. As this representative, Ayatollah Khomeini ensured that his power would be extended firmly into the political and well as religious sphere. He has, in effect, ruled with absolute authority.

Such absolutism has circumscribed the powers of the other five Grand Ayatollahs by preventing them from airing their views on the role of the spiritual leader. Ironically, this has led to a situation in which those who are qualified to replace Ayatollah Khomeini in religious terms have been effectively eliminated for political reasons.

Most of the Grand Ayatollahs disagreed with Ayatollah Khomeini over the degree to which the clergy should be involved in political affairs. Grand Ayatollah Shariatma-

dari, a particularly vocal critic of the nature of Islamic rule under him, learned to his cost the dangers of dissent when he was stripped of his mantle as Grand Ayatollah before his death in the early years of the revolution.

Apart from Montazeri, who still commands significant support among the people, only Grand Ayatollahs Golpayegani and Marashi Najafi have participated in the Islamic Republic, although at some distance. Both sent messages of condolence broadcast by Tehran Radio yesterday.

The spiritual leader must, by the terms of the constitution be an "honest, virtuous, well-informed, courageous, efficient administrator and religious jurist, enjoying the confidence of the majority of the people as leader."

Although Khomeini has been named as Khomeini's replacement, he appears not to have been given Khomeini's full spiritual powers; he was not referred to as the *vah-e faqih* (the vice-regent of the jurists). Given the fact that the appointment also appears to be temporary pending the constitutional changes, the whole issue of the spiritual leadership of the country is still open.

The move may not solve the problem of dual power centres, but it does for the time being indicate a considerable coup by Rafsanjani since he and Khomeini are political allies. Rafsanjani is himself the only declared candidate for the

August presidential elections. The role to be played by Khomeini's son Ahmad behind him is thought radical groups were trying to make a bid for power, is unclear.

From the end of last year, Iranians have been acutely aware of the problem posed by the lack of qualified candidates for the spiritual leadership. In several speeches earlier this year Khomeini alluded to the fact by hinting that administrative and management abilities could compensate for lack of religious learning. Both Khomeini and Rafsanjani supported this position.

The option of abolishing the position of spiritual leader altogether is not an attractive one for Iran's clerics. It would undermine the ideological basis of the country's political system.

But if that step is taken and Iran is to be ruled by efficient managers rather than men chosen purely for their religious credentials, the question is bound to arise eventually as to why the country should be in the hands of the clergy in the first place. This will be the question of how Islamic Iran can hope to extend or exert its ideological influence over other Shia groups and countries in the future.

By choosing the President, the government has presented a united front in the early days of the post-Khomeini era. As Khomeini declared on another occasion: "The maintenance of the system is the highest aim". There were rumours yesterday that dissident groups in the Revolutionary Guards and in the provinces are attempting to take advantage of Khomeini's death.

It seems unlikely that the major ideological differences within the leadership will surface immediately. But the future is clouded by doubts

that Khamenei will be able to emulate the Ayatollah who mastered the art of acting as the final arbiter. The possibility that rival factions will be unrestrained remains therefore a real one.

The main battle lines are drawn between those, like Rafsanjani and Khamenei, who support the idea of a centralised administration and others, such as the Interior Minister, Hojatoleslam Ali Akbar Mohtashemi, who would prefer the maintenance of a fervent revolutionary spirit in Iran, which would include diffused centres of power and a commitment to the export of revolutionary ideology.

Rafsanjani's ideas appear to be gaining the upper hand. The proposed changes to the constitution - which are almost certain to give the President more power - have been made at his instigation, and the Majlis is in the final stages of approving his plan to have the Revolutionary Guards absorbed into the Defence Ministry.

The Islamic Republic has had to face two major tests of endurance. The first came with the humiliating acceptance of a ceasefire in the war with Iraq last year, a stepdown which was a bitter pill for Khomeini to swallow. The second and more serious test is the death of Khomeini himself and the uncertain legacy he has left his country.



Khomeini: move to end uncertainty

# Clerics and politicians jockey for advantage

IRANIAN clerics were quick to choose President Ali Khamenei yesterday to replace Ayatollah Ruhollah Khomeini, who died on Saturday, but they will sorely miss Khomeini's guidance. His various supporters and opponents, from radical clerics to ambitious politicians, will be eager to make their mark.

Even in the final months of his life Khomeini was the undisputed leader of the Iranian revolution. He was called on to mediate in doctrinal and political disputes among his followers and to approve momentous decisions, such as the one which put a stop to the war with Iraq in August last year.

President Ali Khamenei, 49, is the new leader of the Islamic republic. He is constitutionally obliged to step down as President after two terms - hence the forthcoming presidential elections in August will favour him to remain in office.

Khamenei, with his power base among the bazaar merchants, broadly agrees with Hojatoleslam Ali Akbar Hashemi Rafsanjani in supporting a moderate foreign policy and has backed him in his bid for the presidency in the August elections. The two allies are likely to be a powerful combination.

Unlike Rafsanjani, Khamenei has in the past tended to side with economic conservatives opposed to too much state intervention in the economy, although in recent years he has played down his bazaar connections and even advocated increased state control.

After Ayatollah Khomeini himself, the canny and popular Hojatoleslam Ali Akbar Hashemi Rafsanjani, 54, has been Iran's most powerful political figure, and there is every rea-

son to suppose that he will try to remain so.

He is acting commander-in-chief of the armed forces and the speaker of the Iranian parliament, and he is so far the sole candidate for President in the elections to be held in August.

If, as expected, the President is given increased executive powers and the post of Prime Minister is abolished, Rafsanjani may join forces with Khamenei or - if things sour between them - attempt to dominate policy-making at the expense of the spiritual leader.

He is regarded as a pragmatist in the West because he favours improved relations with the outside world as Iran attempts to rebuild its economy and because he apparently persuaded Khomeini to accept the Gulf war ceasefire.

But he happily espouses radicalism when fighting domestic political battles and followed Khomeini's lead when the Ayatollah ordered the execution of Mr Salman Rushdie, the British author.

Among those jostling for position after Khomeini's death is his 45-year-old son Hojatoleslam Ahmad Khomeini, who is backed by the radicals and opposed to Rafsanjani.

As the Ayatollah's private secretary, he had unique access to his father and a corresponding degree of influence - he is to read Khomeini's will - but he is a junior cleric who lacked the necessary religious or political credentials to make

a lone challenge for the leadership.

Ahmad Khomeini, once a keen footballer, has only periodically taken an active role in politics and has re-emerged as a force to be reckoned with in the past two years.

A proponent of socialist economic policies and a champion of supervised state television and radio and the two large-circulation daily newspapers in Tehran, *Etelaat* and *Kayhan*.

Post-Khomeini Iran will be a test for Ahmad and it is open to question whether he will survive politically without his father's protection.

Unlike Rafsanjani and Ahmad Khomeini, Ayatollah Hossein Ali Montazeri is a 66-year-old Grand Ayatollah with strong religious credentials. A pupil and once a close friend of Khomeini, Montazeri was chosen in 1985 as his successor.

But he was forced by Khomeini to resign in March, accused of being duped by liberals and dissidents, and it was this which led the succession in turmoil until Khamenei was chosen.

Since then he has been engaged in a dispute, by correspondence, with Ahmad Khomeini. In some ways a mild-mannered man, Montazeri wanted the Islamic revolution to have a more human face and has condemned its worst excesses.

Hojatoleslam Ali Akbar Mohtashemi, the 43-year-old Interior Minister, is one of the most prominent hardliners in the Iranian government and is responsible for much of its security apparatus. He is thought to support Ahmad Khomeini.

As ambassador to Syria from 1981 to 1985, he was linked to the Lebanese Shia fundamentalist group Hizbollah.

# West and Arab foes greet death with relief and trepidation

BY VICTOR MALLAT, Middle East Correspondent

AYATOLLAH Khomeini's demise may be mourned by radical Shia Muslims, but the Western and Arab countries to which he tried to export the ideas of the Islamic revolution are greeting his death with quiet satisfaction, albeit mixed with trepidation about Iran's uncertain future.

There was little grief in the US, which has not forgotten how it agonised about the fate of 52 American hostages seized at the US Embassy in Tehran in 1979 until their release after more than a year in captivity.

"With his passing we hope Iran will now move towards assuming a responsible role in the international community," said President George Bush yesterday.

"We will carefully watch the situation," a Japanese government official said.

In Britain, the Foreign Office made no immediate comment and the author Mr Salman Rushdie remained in hiding from the death sentence for blasphemy issued by Ayatollah Khomeini before he died.

Japan and the West have been anxious to win some of Iran's oil revenues by taking part in post-war reconstruction projects, but Iran's political confusion and its reluctance until now, to borrow abroad

have made life difficult for businesses seeking big contracts.

Saudi-Iranian negotiations for the admission of Iranian pilgrims to Saudi Arabia for next month's pilgrimage to Mecca have broken down, and it is possible that none will go to Jerusalem, the Foreign Ministry said. Israel hoped for an improvement in Iran's attitude to Israel and the West.

In most of the Arab world, the news of Khomeini's death was treated yesterday with the usual caution. Iraq reported it without comment and other Arab states ruled by Sunni Muslims, especially Iraq, Saudi Arabia, Kuwait and Bahrain, have long feared the destabilising effects of Khomeini's Shia radicalism on their own Shia populations.

In Beirut, Lebanese Shia Muslims mourned the Ayatollah's death and members of Hizbollah made public declarations of grief in their mosques.

"Imam Khomeini's death was one of the most devastating disasters to have struck the Islamic nation," said Sheikh Mohammed Hussein Fadlallah, Hizbollah's spiritual guide.

By contrast, Khomeini's opponents around the world were almost jubilant.

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## OVERSEAS NEWS

## AIDS spawns an epidemic of unconcern

Familiarity with the disease is breeding an undisguised contempt for its effects

SEVERAL thousand doctors, medical researchers and health administrators have gathered in Montreal this week for the fifth international AIDS conference, against a background of a rapidly increasing number of worldwide AIDS cases - and rapidly declining public interest in the disease, at least in Europe and North America. Despite intense research, no cure for the disease or vaccine to prevent it is yet in sight.

Politicians, journalists and the general public are presently showing less concern about AIDS than at any point since the first international conference in Atlanta in 1985, when the world was shocked into realising that the disease was a serious threat to public health.

"In the US there's now a familiarity with the disease which has bred an undisguised contempt for it," says Dr June Osborn, Dean of the School of Public Health at the University of Michigan. "I even have people saying to me: 'Your life must be becoming easier now that the epidemic is on the wane.'

"Unfortunately society is not dealing successfully with AIDS, but sweeping it under the carpet. The people whose business is to deal with the epidemic remain in awe of the looming problems."

Experts are becoming more confident about estimating the size of the epidemic and predicting its future growth, as governments, particularly in Africa, stop pretending that AIDS hardly exists and begin to welcome medical assistance from outside. The World Health Organisation, which expects to spend \$90m this year on its Global Programme on AIDS, estimates that between 5m and 10m people are now carrying HIV, the virus that causes AIDS, 20m are likely to be infected by the year 2000. According to present medical knowledge, most of them will eventually die of AIDS.

The number of AIDS cases officially reported to the WHO reached 123,000 last month, but the true total is believed to be at least three times as great. WHO projections show the number of cases reaching 1m by the end of 1991 and 3-4m by the end of the century.

Although the US has much

the largest number of official AIDS cases - 90,000, of whom about half have died - the epidemic there is still confined largely to homosexual men and people who inject themselves with illegal drugs. In Africa, where the 33,000 reported cases probably represent less than one tenth of the real total, the vast majority have been infected by heterosexual contact or by their mother in the womb.

According to the Organisation Pan-Africaine de Lutte contre Sida (Opals), based in

**Those whose business is to deal with the disease remain in awe of the problems, Clive Cookson, Jimmy Burns and Peter Marsh report**

Paris, up to 30 per cent of young adults and 15 per cent of children are now infected in some cities in central Africa. Dr Michel Rosenheim, Opals vice president, says the social effect will be devastating. "AIDS is affecting the most healthy and productive members of society," Dr Rosenheim says. "It is not a disease of the poor like tuberculosis and malaria. The future leaders of these African countries are going to die of AIDS."

In most of Europe and North America the much feared "break out" of AIDS into the non-drug-using heterosexual population has not occurred. Although Europe as a whole remains about three years behind the US in the progress of the epidemic, different patterns are emerging in southern Europe, where the disease is concentrated among intravenous drug users, and northern Europe, where most victims are homosexuals.

AIDS is beginning to spread through the Caribbean region as a heterosexual epidemic on the African model. But perhaps the most disturbing new evidence comes from Asia, the continent so far least touched by AIDS. Tests on illegal drug users in Bangkok show that the proportion infected by HIV has risen from just 1 per cent in January 1986 to more than 50 per cent now.

James Chin, head of the WHO's AIDS surveillance unit,

says that the Bangkok figures should finally destroy the myth that Asians have largely escaped infection because they are genetically less susceptible to the virus. Since Bangkok is a centre for "sexual tourism," infection of the city's 50,000 drug users could spread AIDS rapidly through the region.

Nations are divided as to what social policies should be adopted to deal with the disease. So are employers and trade union officials, who are having to deal with AIDS as a labour relations issue.

Cuba stands out as the only country where the government forces AIDS patients to live apart from their families and friends in special sanatoria until they die. China last year strengthened local legislation making homosexuality, drug addiction, and prostitution punishable by lengthy labour re-education, as a way of combating AIDS. And mandatory testing is practised in a growing number of states and countries including Bavaria, Bulgaria, South Africa, Argentina, and the Soviet Union.

So far, the US and most west European governments have resisted draconian measures because of the political, social, and legal implications, quite apart from the unproven medical effectiveness of compulsory testing.

Companies which openly declare that they screen potential recruits are the exception rather than the rule. Testing is for jobs in which AIDS could arguably affect performance and put public safety at risk. Examples are British Airways and Texaco, which have introduced screening for pilots and truck drivers respectively.

US employers who tried to solve the problem of AIDS at the workplace by firing those with the disease are now finding themselves on the wrong side of the law. Since 1986 an increasing number of states and several cities in the US have made AIDS a "protected handicap" so that a large measure of protection now surrounds the victim.

The issue of AIDS discrimination at the workplace has yet to be fully tested in European courts. However a report written by the international jurist, the late Mr Paul Sleghart, argues that a company which refuses a job applicant because he or she is suspected

of carrying the AIDS virus could be liable under international human rights law.

Last year in one of the first cases of its kind in the UK, a homosexual who was sacked because his colleagues feared he would give them AIDS won £2,000 damages in an out-of-court settlement, even though a court had earlier ruled against him.

On balance, however, most companies in Europe and the US are adopting a conciliatory approach which avoids such legal minefields and minimises disruption in industrial relations. This concentrates on providing information about the facts as far as they are known and laying to rest irrational fears about catching AIDS from contact at work.

Life insurance companies, on the other hand, argue that their financial health depends on discriminating against clients who are at risk from AIDS. Their attitude - and in particular the way they have asked applicants about HIV tests - has put the insurance industry in conflict with the organised medical profession.

The only drug so far licensed by government authorities to treat AIDS directly is AZT (also known as zalcitabine) made by Wellcome, a UK pharmaceutical company. But AZT, which is used by about 30,000 people around the world, is far from perfect. It causes unpleasant side effects, such as severe anaemia, in many AIDS patients and it does not claim to cure the disease but only to relieve some symptoms and prolong life.

For the £70bn-a-year world drug industry, therefore, the challenge is to come up with a product that will improve on AZT. According to the Pharmaceutical Manufacturers Association of the US, a total of 66 medicines designed to treat AIDS and the secondary infections which accompany it are now going through the various stages of the Food and Drug Administration's approvals process.

Designing an effective treatment for any virus is a formidable scientific challenge. Viruses work by infiltrating themselves inside human cells and hijacking the host cells' metabolic machinery to grow and reproduce. They are much more difficult targets than bacteria, which are independent

cells and can be killed by antibiotics without destroying the human cells around them.

The way HIV can bury itself in the genetic material of the cell and then suddenly burst into lethal action after a delay of several years makes it hard to attack, even in comparison with other viruses such as influenza and the common cold for which no cures exist. A "cure" for HIV, in the sense of eradicating the virus from the genes of AIDS patients, may not be achieved for several decades, but most researchers believe that they can develop a drug which is free of side effects and which suppresses all symptoms of the disease.

Several anti-viral drugs now proceeding through the final stages of clinical trials look as though they might have fewer side effects than AZT. One of the most promising is dideoxynosine (DDI), under development by Bristol-Myers of the US. Both AZT and DDI work because they mimic the chemical building blocks of the genetic material DNA.

The new anti-virals are likely to be used in a "drug cocktail" containing other medicines designed to stimulate the immune system and to fight the secondary infections such as pneumonia which afflict AIDS patients.

Developing a vaccine to prevent HIV infection may be even more difficult than finding an effective treatment. Some AIDS specialists say that the nature of the virus makes the quest for a vaccine hopeless.

But 12 pharmaceutical companies are trying to develop an HIV vaccine in the US. And in the current issue of the journal Nature, a UK team led by Professor Jeffrey Almond of Reading University reports encouraging laboratory tests of a prototype vaccine based on a hybrid HIV-Polio virus.

Although AIDS victims are understandably impatient that new drugs are not emerging more rapidly from the billions of dollars spent on AIDS research, the progress made since HIV was discovered six years ago has been astonishing. And, because of the cross-fertilisation with other areas of medical research, future beneficiaries could include anyone who suffers from a viral illness or even cancer.

The mood in Montreal, how-

## Turkish guerrillas leave 50 dead in spring offensive

By Jim Bodgener, recently in Diyarbakir, south-east Turkey

MORE than 50 people, including civilians, have been killed since early last month, as Turkey's south-eastern region has once again been hit by a spring offensive, launched by guerrillas of the separatist Marxist Kurdish Workers' Party (PKK).

The offensive has led to one of the strongest counter-insurgency sweeps yet mounted against them by the Turkish security forces.

The deputy governor of the region, Mr Nafiz Kayali, admitted in the south-eastern capital, Diyarbakir, last week, that attacks had escalated in recent days. But he said the incidence of terrorism generally had declined so far this year, compared with 1987. More than 1,000 people are estimated to have died since the guerrilla war with the PKK started in earnest in mid-1984.

The terrorists, estimated to have about 300 hard-core fighters inside Turkey, have switched tactics from comparatively soft civilian targets - such as village headmen and rural militia - to direct

attacks on the security forces, or propaganda operations clearly aimed at recruiting more sympathisers, by playing on tensions between the emergency administration and the population, largely Kurdish.

However, Mr Kayali said the greater efficiency of the security forces this year better shielded the populace from the PKK. Nor did there appear to be much co-ordination in the guerrilla attacks, judging by the losses inflicted by the security forces, he added.

Early in May, an attack on a coal mine was followed by a bus hold-up when four soldiers and a civilian were shot. On May 22, 12 terrorists were killed in the mountainous area around Erub, among them four high-ranking PKK leaders, and reportedly one foreigner - generally believed to be a Syrian. Although Syria has ostensibly ordered PKK bases off its territory as part of a superficial rapprochement with Turkey, it is an open secret that PKK terrorists train in the Syrian-controlled Bekaa valley in the Lebanon.

## US purchasing managers' index shows weakness

By Anthony Harris in Washington

THE US purchasing managers' index, the most widely followed indicator of industrial sentiment, turned negative for the first time in 33 months in May, its Business Survey Committee said.

The index, at 49.7, was barely below the neutral 50 mark, but sharply down from its level of 53 in April, and fell below its recent low point of 50.4 in March. It has fallen from 57.5 since the end of 1988. A 50 score indicates an equal weight of upward and downward expectations in a weighted industrial sample.

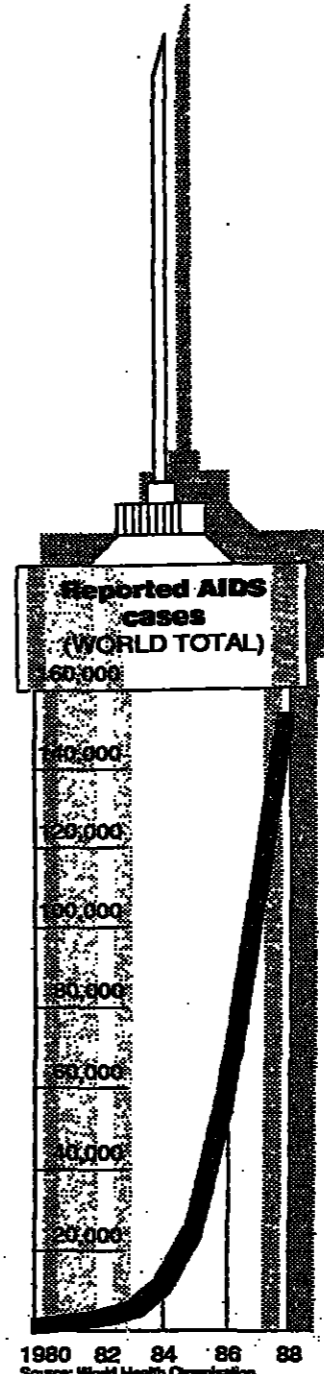
At the same time, the purchasing managers' inflation index fell to its lowest level since 1986. The report indicates growth slowing to a 2.5 per cent annual rate, provided the index maintains its 1989 average of 51.9. Mr Robert Bretz,

chairman of the committee,

said. The inflation indicator showed a sharp fall in the proportion of companies expecting to pay higher prices, at 25 per cent, against a recent average of 49 per cent, while the number expecting to be offered cut prices, at 10 per cent, was twice as high as in recent months.

Only 11 commodities were reported up in price during May, the lowest number for more than two years, and 10 were reported down - the highest since July 1988.

On the output side, only the indicator of export orders, at 60 (down from 62 in April) remains strongly positive. The production index, showing current conditions, remains positive at 51.1, but was sharply down from April's 55.5.



ever, is far from triumphant. In the absence of a cure or vaccine, the only viable policy for containing the AIDS epidemic is to persuade the public to avoid risky sexual behaviour and stop sharing drug needles. That depends on a high level of media and political interest in the disease, and AIDS specialists who complained that journalists overwhelmed previous international AIDS meetings are worried that there may not be enough coverage this time.

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to national television. However, ITV's regional system enabled it to be shown north of the border, where it proved highly popular.

Another example of television

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OVERSEAS NEWS

Japan may file over Super 301

By Laura Raun in The Hague

JAPAN may file a trade complaint against the US over its controversial Super 301 clause which targets trading partners for possible retaliation...

under the multilateral Gatt umbrella. Mr Muraoka and Mrs Hills were in The Hague for two days of biannual trade talks between Japan, the US, Canada and the European Community...

of an official complaint and seek mediation in Gatt. Tokyo would ask a Gatt working group to determine whether Super 301 was consistent with Gatt.

to have retaliation then we have failed in our discussions and I don't like to fail. The four trade ministers, including Mr Frans Andriessen for the EC and Mr John Crosbie for Canada, sought to stress points of agreement on extending Gatt rules to international investments, intellectual property rights and services.

Canada and Brussels in pledge over fishing row

By David Buchan in Brussels

CANADA and the European Commission have pledged mutual "political will" to prevent their dispute over North Atlantic fishing from disrupting booming two-way trade between Canada and the EC that reached Recu 28.5bn (\$21.47bn) last year.

Vote will be fight for French middle ground

'Europe' is unlikely to play a material role in the June 18 election, Ian Davidson reports from Paris

EUROPEAN issues will play a secondary role in the French campaign for this month's elections to the European Parliament.

and political integration. The consequence is that the campaign is being conducted with little reference to substantive policy issues.

among the worst attenders of the monthly plenary sessions; during the current five year Parliament, Mr Georges Marchais, leader of the Communist Party, has turned up on only three occasions.

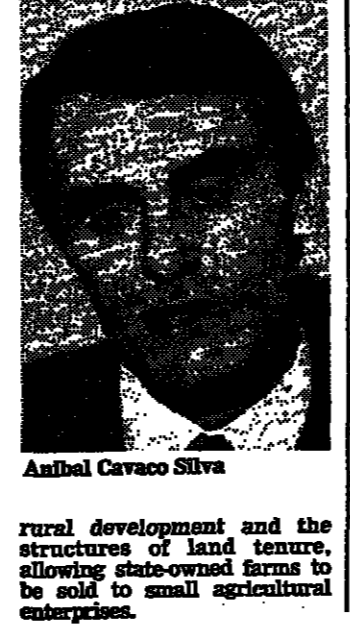
Lisbon to sell stakes in state groups

By Diana Smith in Lisbon

THE PORTUGUESE Government has announced its intention to de-nationalise state-run corporations which were created in the 1975 revolution. The de-nationalisation will come as part of a far-reaching economic and social programme.

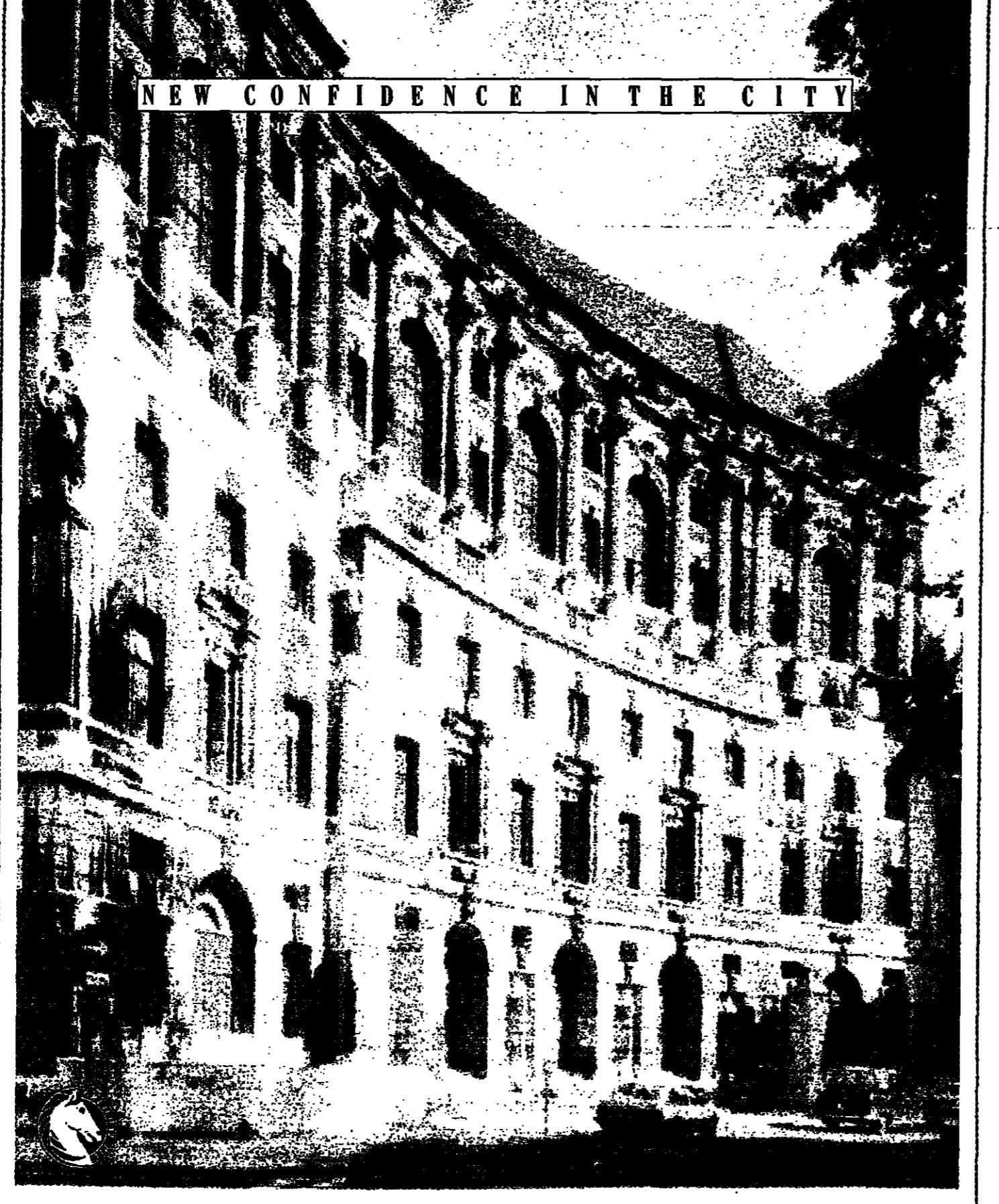
administration has taken advantage of last week's election from the constitution of clauses and phrases that banned de-nationalisation. It has called for socialisation of the main means of production and collectivisation of land and a subordinate role for private enterprise in its programme which it launched at the weekend.

old age pensioners." The weekend's bumper bundle looks like a bid to regain status and give PSD candidates a boost in the June 18 election. Apart from de-nationalisation, it brings an increased national minimum wage, sale of state-run farmlands to small farmers, opening of state-run television to private enterprise and stimulus to private medicine.



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rural development and the structures of land tenure, allowing state-owned farms to be sold to small agricultural enterprises.

But they may well have an important influence on the restructuring of the French political scene, and they are certainly being taken immensely seriously by the political parties - witness the promises of the politicians who are leading their party campaigns.

These quarrels seem to be playing against the interests of the moderate right, and in favour either of the Socialists or of the minority parties. A recent poll suggests that the Socialists will get 28 per cent, significantly ahead of Mr Giscard d'Estaing's conservatives with 25 per cent, while Mrs Veil's centrists look like making a respectable 14 per cent.

But the young reformers turned out not to have the stomach for a serious rebellion; within two weeks, their courage melted away, and they fell meekly into line behind Mr Giscard d'Estaing and Mr Chirac. The centrists were not to be cowed, however, and they launched a separate list of their own.

Italian police seize copies of handguns

By John Wyles in Rome

COPIES of a Beretta handgun designed for collectors have been seized by Italian police after it was discovered that the Neapolitan Mafia, the Camorra, had been converting them into usable, and disposable, weapons.

Since the real weapon costs around 1,800,000 against some 1,100,000 for the collector's item, the latter is obviously attractive since it can be used once and thrown away, while repeated use of a normal weapon always offers the possibility of drawing a link between crimes.

small workshop on the outskirts of Naples in February. There, it found two of the Milan company's products modified for direct action - subsequent discoveries suggest that the removal of a metal plug at the end of the barrel plus some modification to the firing mechanism was all that was needed.

NOTICE OF INFORMATIONAL MEETINGS by AMERICAN MEDICAL INTERNATIONAL N.V. Holders of Zero Coupon Guaranteed Bonds Due August 12, 2002. American Medical International N.V. on behalf of its parent company American Medical International Inc. is announcing Informational Meetings to be held at 12.00 pm on: Monday 5th June 1989, Merrill Lynch International, Muhlebachstrasse 25, 8024 Zurich. Tuesday 6th June 1989, Merrill Lynch International, 13 Route du Florissant, 211 Geneva.



# Merger would create powerful left-wing union in Labour movement Talks to open on big union merger

By Charles Leadbeater, Labour Editor

THE TRANSPORT and General Workers Union, Britain's largest union and MSF, the sixth largest, are to open exploratory talks which could lead to the biggest merger in union history.

The two unions, which are both on the left-wing of the union movement, have a combined membership of 1.9m. Should the 1.28m strong TGWU also succeed in merger talks with the National Union of Mineworkers, it could have 2m members by the early 1990s.

A TGWU-MSF merger would create a powerful left-wing union, able to represent all grades of staff within manufacturing and covering almost all sectors of the economy from finance to car assembly and public services.

MSF's strength among professional, technical and supervisory staff would complement the TGWU's base among manual workers.

The merger plans will put pressure on other unions such

as the AEU engineering union and the GMB general union, to accelerate their plans to attract other unions.

The merger could also have considerable ramifications for the policies of the Trades Union Congress and the Labour Party on issues such as public ownership and defence.

Both unions support unilateral nuclear disarmament. A merger would provide the left within the Labour movement with a new power base, at a time when the right wing seems in disarray in the wake of the collapse of merger talks between the AEU and the EETPU electricians' union.

The talks have been arranged following a letter from Mr Ron Todd, the TGWU's general secretary, to Mr Ken Gill, MSF's general secretary, proposing discussions aimed at developing a closer working relationship.

MSF's national executive, which discussed the approach at a meeting about 10 days ago,

has sanctioned Mr Gill opening the talks.

The discussions will focus initially on developing common approaches to issues of policy involving the Trades Union Congress, the unions confederation, such as the proposed changes to the structure of the general council, on which both unions oppose proposals drawn up by Norman Willis the TUC general secretary.

The two unions are likely to start collaborating much more closely in making bids for union agreements on Greenfield sites such as the Toyota investment at Derby, in the English midlands, and the Bosch plant to be built in south Wales.

Senior officials of both unions believe these exploratory talks will quickly develop into discussions about a full scale merger.

The two unions have complementary internal structures based on regions and trade

groups covering different sectors, which should make a merger relatively easy to achieve.

However the talks are likely to be attacked by right-wingers within both unions. The right within the TGWU is concerned that Mr Gill and Mr Arthur Scargill, the NUM president, both of whom are on the hard left of the union movement, could come to play prominent roles within the TGWU.

The MSF was created last year from a merger between ASTMS, the white-collar union and Tass, the manufacturing union. Mr Gill who was formerly Tass' general secretary became MSF general secretary last year after serving in the position jointly alongside Mr Clive Jenkins, the former ASTMS leader.

•The conference of the GMB, the general union, will today discuss a proposed merger with the National Union of Tailors and Garment Workers.

# Trade deficit in engineering set to deepen by 30%

By Nick Garnett and Terry Dodsworth

AEROSPACE products will be the only significant UK metal-using manufacturing sector to remain in the black in international trade this year, according to estimates by the Engineering Employers Federation, the main body representing engineering companies.

The federation predicts that the negative trade balance in all engineering products will worsen by 30 per cent, from a deficit of £3.9bn in 1988 to £5.1bn this year.

Economists at the federation estimate that most sectors of engineering, which range from computers and motor vehicles to rail equipment and heavy engineering will experience a significant deterioration in their trade balances through 1989.

Mechanical engineering, for the first time in recent history, will slip into the red, moving

from a positive balance of £166m last year to a deficit of £1.6bn this year, the federation estimates.

The federation's projections are made despite its own calculations that engineering exports will continue to rise as they have done fairly constantly through the 1980's.

Engineering products last had a positive trade balance in 1982 - one of £2.3bn. It has deteriorated steadily since then except for last year when it more than doubled from the deficit of £4.2bn in 1987.

The biggest deficits last year were in vehicles and motor components (£6.1bn) and electronics and computers (£2.7bn). Aerospace equipment had a positive balance of £1.7bn which the federation expects to rise to £2bn this year.

Leggards in the exports race, Page 20

# Pressure for consolidation intensifies

By Charles Leadbeater, Labour Editor

THE MERGER talks in prospect between the TGWU, general workers union and MSF, the general technical union, reflect the intensifying pressure on unions to merge, which could create a set of so-called "super-unions" by the early part of the next decade which would dominate the union movement.

The decline in union membership has made it more difficult for unions to support their infrastructure of full-time regional officials to support collective bargaining and recruit new members.

In addition unions have been attracted by the economies of scale which mergers should bring in offering financial and legal services, such as credit cards, discounted insurance and financial advice.

Changes in working practices, the growth of single union agreements, and the spread of new technology has blurred the demarcation lines between blue and white-collar staff and workers in different industries which have traditionally provided the union's

with their organising boundaries.

Political factors have also played their part. A TGWU-MSF merger would provide a new focus for the left within the union movement and the Labour Party, just as the aborted merger plans of the

Unions have been attracted by the economies of scale which mergers should bring in offering financial and legal services, such as credit cards, discounted insurance and financial advice.

AEU, engineering union and the EETPU electricians' union, would have created a focal point for the right-wing.

A TGWU-MSF amalgamation would put the merged union in a position to draw in a range of other left wing unions such as the Fire Brigades Union, as well as smaller unions within transport and manufacturing.

MSF would continue to pursue its policy of amalgamating with small independent staff associations in the manufacturing and finance sectors.

The move will increase pressure on other unions to press ahead with merger plans.

The GMB general union is attempting to become the focus of a centrist bloc within the Labour Party and the union movement.

Its recent merger with Apex, construction union.

The EETPU now plans to step up recruitment within the energy sector. Mr Eric Hammond, the EETPU's general secretary is keen to start talks with the Union of Democratic Mineworkers.

The AEU, riven by internal leadership divisions, is yet to develop a clear strategy in the wake of the collapse of talks with the EETPU.

Talks between Nalco, the local government union and Nape, the public services union, could create a new public services union by the early 1990s, which could also draw in Coalse, the health service union.

Meanwhile several unions in broadcasting, print and telecommunications are considering mergers which could pave the way for a large communications union.

The white-collar union could pave the way for mergers with other white-collar unions such as the CPSA, civil service union.

The TGWU-MSF talks will start in the wake of the collapse of merger talks between the AEU, engineering union and the EETPU, electricians union, which are both on the right of the union movement.

Had that merger been successful the 1.3m strong merged union would have attracted other unions such as Ucat, the

# Warning on job cuts as 1992 approaches

By John Gapper, Labour Correspondent

HUNDREDS of thousands of jobs in British manufacturing companies are at risk because of managers' failure to plan for the Single European market, Mr John Edmonds, general secretary of the GMB general union, claimed yesterday.

He said managers were "underestimating the effect of the Single Market by a very large margin."

Today, the GMB conference is to discuss a paper that argues that 1992 will mean the unions' bargaining priorities may change dramatically.

• Mr Roland Long, a member of the Confederation of British Industry, the employers' association, called for companies to accept worker participation in the Single Market programme because voluntary initiatives had failed.

# Investment income 7% of trade union total

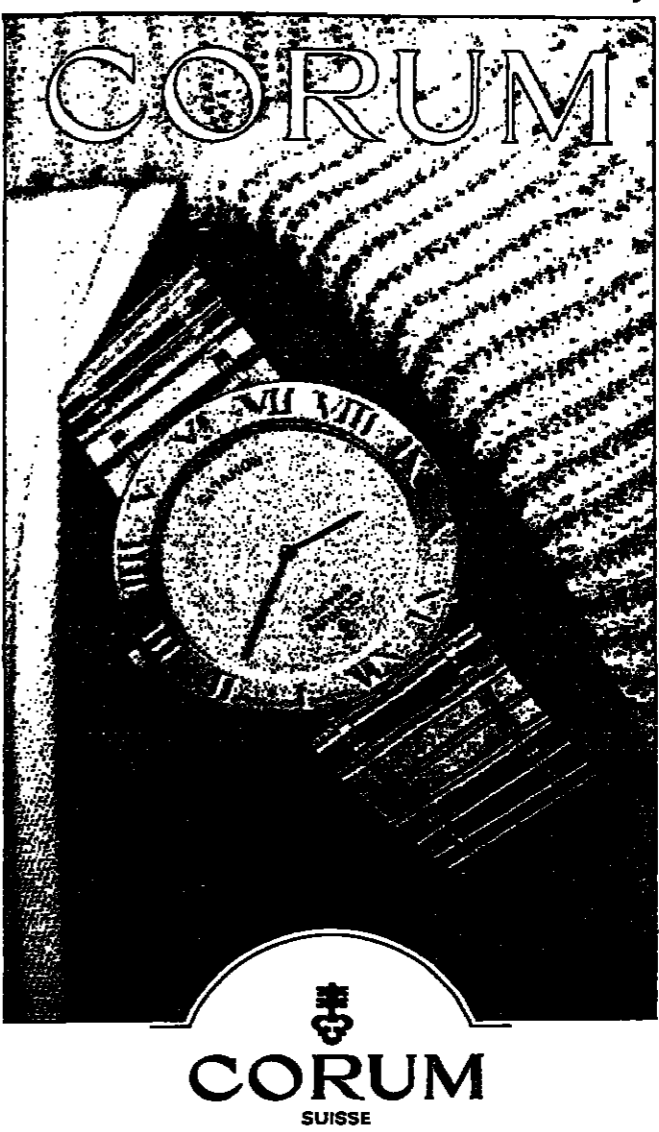
By Our Labour Editor

TRADE unions are drawing increasingly on income from investments to finance services for members, according to a TUC analysis of trade union finances published yesterday.

The analysis of trade union financial returns for 1987 shows that 79 unions with a combined membership of 8.75m had a total income of £386m, or £41.77 per member. This exceeded total expenditure per member of £39.38.

Yet income from subscriptions averaged at £37.22 per member. Income from investments and other sources was £59.5m, 7 per cent of total income, or £4.56 per member.

Contribution income increased by 7.5 per cent to £335.8m, while investment income rose 2.3 per cent to £25.7m. Unions held assets valued at about £583m, or £63.19 per member.



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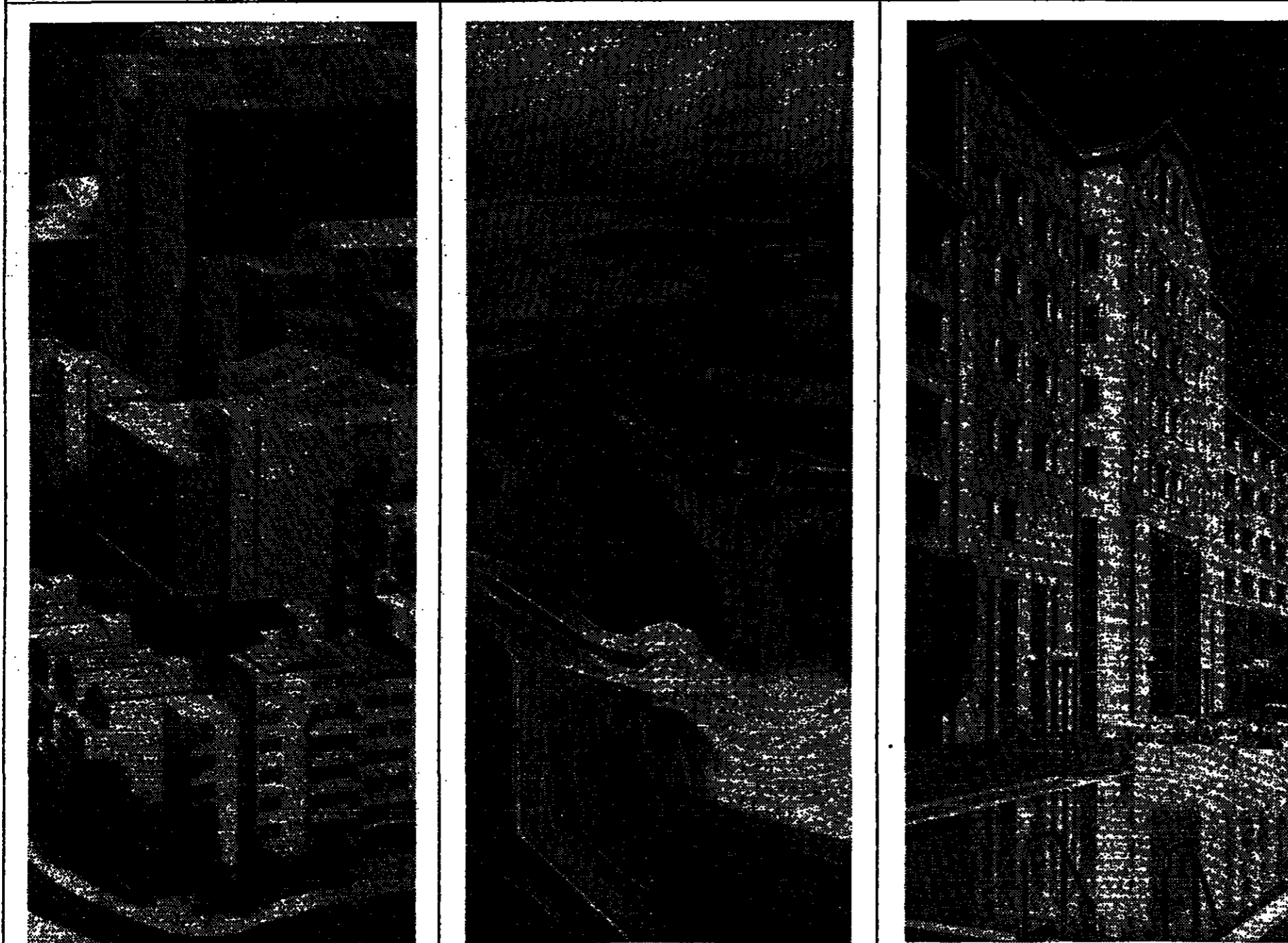
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Our international property investments are developing favourably. During the course of the year, we have completed our own hotels in West Germany and Vienna, and the exciting Trinity Tower office complex in London is proceeding according to plan.

Group consolidated revenues increased during the year by 17.6% to USD 3,767 million. Income before allocations and taxes amounted to USD 294 million, 9.7% above the previous year. Sales outside Sweden amounted to USD 290 million. Return on capital employed amounted to 16.4%. Return on equity was 15.9%.

SKANSKA 1988	
Consolidated Balance Sheet, December 31, 1988	
In millions of Swedish Kroner (SEK M)	
Exchange rate: SEK 1,000 = USD 163,13 (December 31, '88)	
<b>ASSETS</b>	
Bank balance	1,611
Receivables	8,676
Investment and development properties	10,055
	<u>20,342</u>
Other receivables	894
Shares and participations	4,804
Machinery and equipment	1,399
Fixed-asset properties	1,622
	<u>    </u>
<b>Total</b>	<b>28,938</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	
<b>Current liabilities</b>	
Uncompleted contracts	6,551
Invoiced sales from beginning of contract	20,047
Accumulated expenses from beginning of contracts	<u>-16,422</u>
	<u>    </u>
<b>Total</b>	<b>10,176</b>
<b>Long-term liabilities</b>	
Unrealised reserves	5,400
Capital stock	630
Reserves	2,718
Net profit for the year	<u>    </u>
	<u>    </u>
<b>Total</b>	<b>28,938</b>

Consolidated revenues 1988 - SEK 23,090 M

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UK NEWS

# Residents rally against London road plans

By Rachel Johnson and David Churchill

THE TRANSPORT Department can be in no doubt that people do not want new roads in their backyards after thousands demonstrated their opposition yesterday to its plans to build new urban highways through London.

More than 4,000 people marched past the department's offices in central London to a rally in Hyde Park. The rally was addressed by Mr Jonathan Porritt, director of Friends of the Earth, an environmentalist lobby group, Ms Joan Ruddock, Labour MP, and others affected by the proposed road building schemes.

The demonstrators oppose schemes, known as the London Assessment Studies, which propose to redraw the road map of London.

United under an umbrella group called All London Against Road Building Menace (Alarm), they say that, even as lines on maps, the plans for new roads are blighting 100,000 homes. They say those living in the broad corridors designated for improvements are having difficulty in selling their homes, and mortgages are being refused.

Alarm, representing at least 100 pressure groups, estimates that the studies' proposals will jeopardise the existence of 250 schools and about 3,000 houses. The studies, commissioned on the abolition of the GLC in 1984, were supposed to develop a range of options to relieve

There are four assessment studies:

**EAST LONDON:** Hackney, Islington, Tower Hamlets, parts of Camden and Haringey.

**WEST LONDON:** South Circular Road from Gumsbury to Wandsworth and Earl's Court.

**SOUTH LONDON:** A23 corridor from Brixton to the end of the M23 south of Farley.

**SOUTH CIRCULAR:** South Circular Road corridor from Wandsworth to Eitham.

transport congestion in four London zones - north-east, south, west and along the South Circular Road. The new road options were to take the pressure off "pinch points" of congestion and improve accessibility by opening up bottlenecks. However, so far the studies have resulted in little but opposition since the 40 options for improvements, half involving extensive road building, were made public last summer.

The publication of the interim stage 2a reports inspired an unlikely display of common purpose between the Labour-controlled Association of London Authorities, and the Conservative London Boroughs Association, which are still continuing in their alliance.

The LBA says it is in broad sympathy with the ALA and is very concerned that the

studies show "scant regard for environmental issues." For example, some of the route options suggest new roads over the South London "green chain" - a continuous walkway of green spaces through Bromley to the Thames.

"Some routes cut the green chain and drive motorway through it," said Mr Simon Randall, chairman of housing and works for the LBA.

Both organisations, together with Alarm, are campaigning to have the studies abandoned before the options for action become firm proposals in the summer, when the consultants are due to deliver the second stage, known as 2b.

Meanwhile, stage 2a is under preparation. The consultants are supposed to be conferring with local boroughs, transport operators and police. But the ALA says it is only attending the infrequent meetings to make sure the consultants are working with accurate data. The meetings, held at the department, were simply a matter of routine, and are now suspended, it says.

In spite of the boroughs' wishes to see the studies dropped, Mr Paul Channon, the Transport Secretary, is to decide by Christmas which of the "wilder options" are to be ruled out and which are to be made firm.

The department argues that new roads will reduce road

casualty figures, which are higher in London than anywhere else in the country. It says that campaigners, such as Friends of the Earth, are scare-mongering by putting out leaflets referring to proposed trunk routes as "motorways."

Mr Michael Goodman, leader of Hammersmith and Fulham council, says it is a "despicable and perverted" argument to use road accident statistics to justify building new roads - which quickly reach overcapacity and become dangerous.

Mr John Wakeham, a councillor at Camden and chairman of the ALA's planning and transport committee, agrees that the road safety argument fails to convince.

"The way to reduce road traffic is to shift it to public transport, which is safer, but virtually ignored by these studies."

The authorities say they will never be convinced by the department's plans. "They are looking at building new roads along areas of land where roads have never been in the past. Any new road needs to be justified," says the LBA's Mr Randall. However, the department has already spent £7m on the studies, and is prepared to spend, at the outer limit, £5.5bn on building the new roads. It has a responsibility to support economic growth and industry by reducing congestion, and consequently says its plans are justified.



Protesters say it all: demonstrators unite in Hyde Park yesterday to rally against government road plans.

# Final Channon move to delay EC plan for heavier lorries

By Tim Dickson in Brussels

MR PAUL CHANNON, the Transport Secretary, will make a final attempt today to convince other EC countries that heavier lorries should be kept off British roads until at least the late 1990s.

The EC Transport Council, which begins in Luxembourg this morning, looks like being his last chance to head off the proposal that Britain and Ireland harmonise maximum lorry axle weights by the end of 1996 - a deadline at least two years earlier than what is thought to be acceptable to the UK.

The issue has come to a head after agreements in March on common EC limits for two, three and four-axled lorries.

EC ministers at the time decided to postpone a decision on the timetable for introducing the limits in Britain and the Irish Republic - as well as on what to do about a previous British "grace period" for five and six-axled lorries.

The feeling among member states is that the matter must be resolved at this week's meeting.

Although a defiant Mr Channon appeared to be fighting an uphill battle in March, EC officials and diplomats were wary

of predicting the outcome of today's negotiations.

The Government has been lobbying hard to persuade others that a good 10 years of investment are required to strengthen British bridges - and longer in the case of those under the responsibility of local authorities.

There has been talk of a new compromise from the Spanish presidency of the EC, possibly as part of a deal with the French.

The axle weight issue is just one of several key items to be discussed at the two-day meeting.

Proposals by the European Commission for a common EC breathing limit are likely to run into opposition from the UK, Germany and Denmark on the ground that the EC has no competence in the field of road safety. Several other member states also believe the 0.5ml suggested limit is too low.

The plan to make it compulsory to wear seatbelts in the back of cars is also unlikely to find enough support this time. The proposal, however, to harmonise minimum tyre tread depths at 1.6mm against the 1mm typical in most member states might squeeze through.

# NHS reforms 'stress cost not quality'

By Alan Pike, Social Affairs Correspondent

THE GOVERNMENT'S health care reforms envisage a trend towards a system in which "the dominant processes will be related to costs," the National Consumer Council says today.

It is disappointing, the council says in a submission to Mr Kenneth Clarke, the Health Secretary, that little mention is made of the counterbalancing need for incentives to improve quality.

There was a danger that the responsiveness and comprehensive nature of the National Health Service "may be undermined by a tendency to judge success in providing a service by success in meeting tighter budgetary constraints."

The council argues that the Government's proposals should be subjected to a few strictly controlled pilot studies, with the results published and widely evaluated. That reflects the position of the British Medical Association.

Although Mr Clarke has accepted that the introduction of the changes will be evolutionary, he says he will not allow pilot studies to become a weapon for blocking the reforms.

The council's fears about excessive concentration on the costs of health care are taken up in a pamphlet published by the Office of Health Economics today. It warns that it could be dangerous to produce more detailed NHS budgets based on cost considerations alone while

there is still too little information by which to judge the effectiveness and outcome of treatment.

For the first 30 years after the NHS was founded, says the OHE, it was considered sufficient to justify the steady increase in medical activity, without needing to assess the efficiency of that activity. During the 1980s a quiet revolution had started to rectify that and introduce proper principles of economics and management into the service.

The white paper Working for Patients, in spite of the controversy it had generated, was no more than a further step in this overall process. There was a long way to go before economic efficiency in the NHS was generally achieved.

Although the principle of trying to measure outcomes of treatment, rather than just the quantity of health care activity, was now well established, the methods for doing so remained at a tentative stage. More than anything else, says the OHE, time would be needed to overcome potential difficulties.

From that, it appeared that the Government's timetable for implementing its white paper proposals by 1991 or 1992 might prove unrealistic.

Measurement and Management in the NHS. Office of Health Economics, 12 Whitehall, London SW1A 2DY. £1.50.

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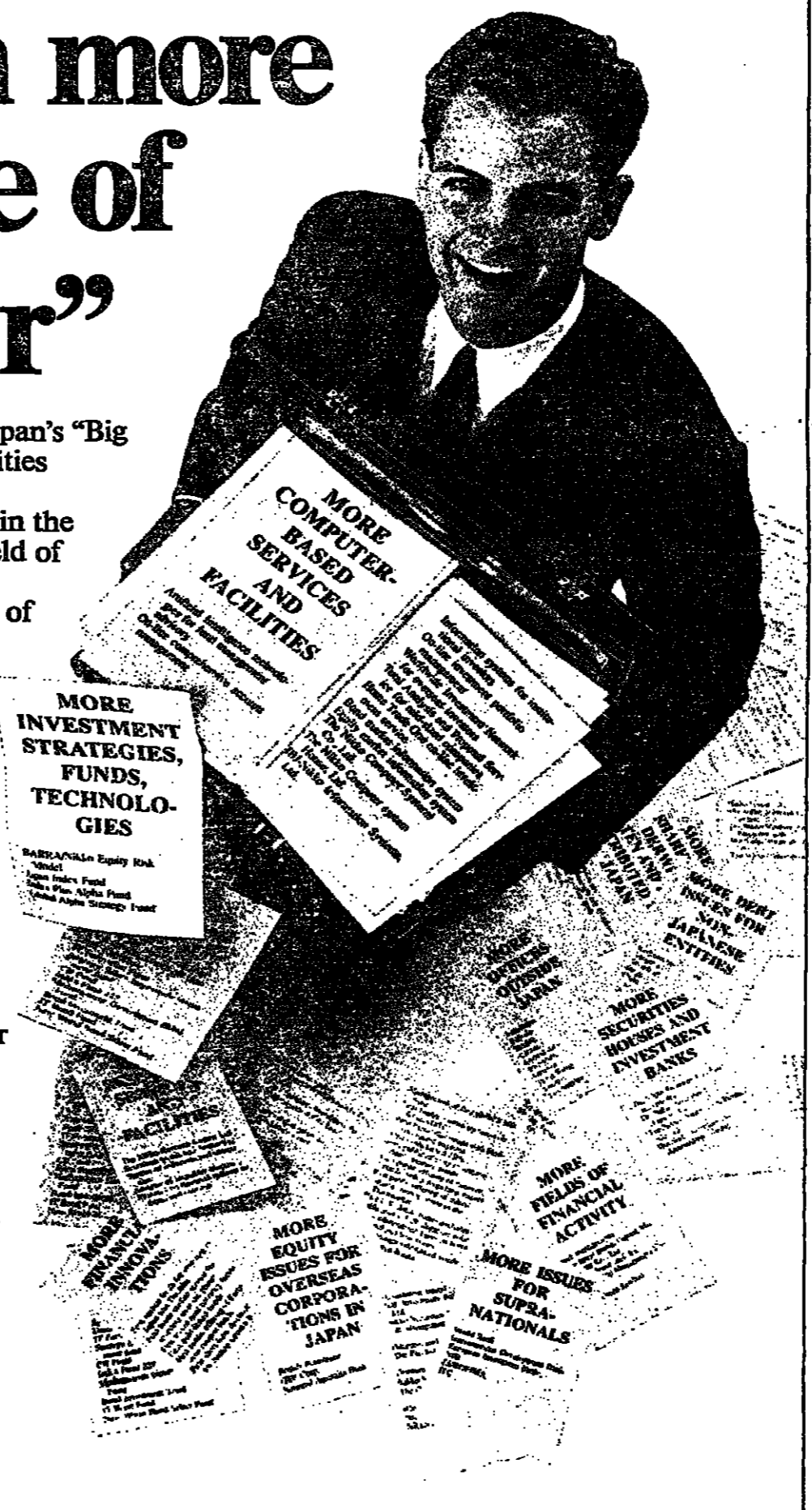
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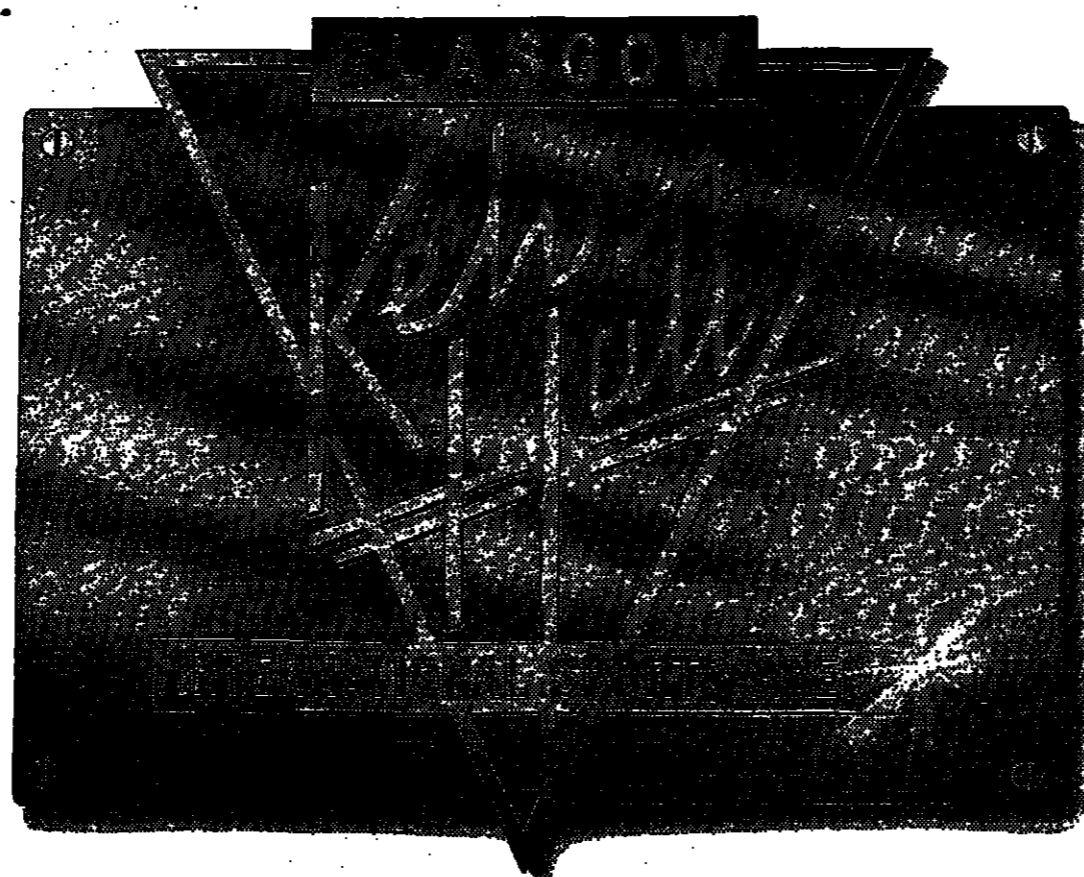
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ENERGY IS OUR BUSINESS

UK NEWS

# Outhwaite makes £64m cash call to meet losses

By Patrick Cockburn

RHM Outhwaite, the Lloyd's underwriting agent, is to ask the 1,614 people who backed two of its insurance syndicates in 1982 for a cash call of £64m because of heavier-than-expected losses last year.

Mr William Bloxham, chief executive of Outhwaite, said the cash call was necessary because "a small number of very large contracts have deteriorated very significantly."

These, as in previous years, related to contracts written in 1982 which reinsured other Lloyd's syndicates. Those, in turn, had written policies in the US covering asbestos and pollution risks.

Explaining the escalation in forecast losses stemming from these contracts, Mr Richard Outhwaite, who heads the syndicate, said in RHM Outhwaite's annual report that the notification of expected claims "received in February and March of this year were generally much worse than any prediction, however pessimistic, could have forecast."

He later confirmed to a press conference that he had raised his forecast of gross claims facing the 1982 members of the syndicate 517/561 from £262m to £304m.

The £64m sum was finally agreed on Friday at the second of two meetings that were convened last week between Outhwaite and 102 members' agents representing the Lloyd's members or "names" whom they had introduced to RHM Outhwaite.

"Names were being contacted over the weekend to hear

details of what they will be asked to pay.

At an earlier meeting, the members' agents had asked for a smaller cash call than the full £76m loss for 1982 recorded last year.

Mr Bloxham said that Outhwaite was hopeful that the losses in some areas would ultimately prove smaller than had been expected.

He said Outhwaite's optimism was based on an arbitration award by Lord Wilberforce. Mr Bloxham believed that that meant that where the insurers had sought to keep down costs by a voluntary agreement with clients over how much money they were to receive, the reinsurer was not necessarily legally obliged to meet claims.

He added, however, that although the final liability of the syndicates might be re-examined in thousands of cases, RHM Outhwaite could provide no hard evidence to the agency's auditors, Ernst and Whinney, that final losses would be reduced.

Outhwaite says it has agreed with Lloyd's not to talk about a rescue plan for the 1,614 members of the 1982 syndicate drawn up by Lord Havers.

This is believed to involve a loan from Midland Bank being paid into an account in Bermuda through C. E. Heath, the insurance broker.

But the 28-strong Council of Lloyd's is reluctant to back the rescue plan. According to Mr Bloxham: "Thus far they have not said they will get involved."

# Managers find share options lucrative

By Clive Wolman

GRANTING share options to senior managers in the run-up to a stock market flotation has become one of the most lucrative forms of tax-privileged remuneration, a survey published today suggests.

The 122 companies that joined the stock market in 1988 form the subject of the survey which was carried out by Mr David Cohen, a partner of the City solicitors firm Palsner and Co.

The survey shows that the price at which the shares were floated on the stock market was on average 2.3 times the price at which the options were granted to the managers a few months previously. In cases in which more time elapsed between the granting of the options, the average flotation price was 3.6 times the price at which the options were granted.

According to the report, two managers made more than £1m in profit as a result.

They were Mr David Southworth of the microcomputer firm P & P, who made £1.63m, and Mr Colin Brooks of the property developers the Rockfort Group, who made exactly £1m.

Options on P & P shares were granted at a price of 12p in January and February 1987 and the shares were floated at 175p in April 1988. The options on Rockfort shares were granted at 23.3p in October 1987.

Employees Participation in Flotations, Palsner and Co, 154 Fleet Street, London EC4A 3DQ, £66.

# Realities behind the greenhouse rhetoric

John Hunt on moves towards a world convention on global warming

WORLD Environment Day, which is being celebrated at the behest of the United Nations today, comes after a year when the sheer scale of the threat to the global environment suddenly seized the public imagination and spurred politicians to action.

Events to mark the occasion include seminars, award ceremonies and special TV and radio programmes. But campaigners who have been preaching the green message for many years will be trying to separate the rhetoric from the reality.

They will be assessing progress in the battle against global pollution in a year that began with widespread seal deaths and the incident of the Karin B hazardous waste ship and ended with the huge Exxon Valdez oil spillage off Alaska.

There is no doubt that increased concern has led to improvements, particularly in international co-operation. In Britain, even the sceptics concede that Mrs Thatcher's celebrated conversion to the environment last autumn was a significant turning point. It has meant that the Government is under pressure to justify its environmental commitment every time a controversy arises.

The ozone layer conference called by Mrs Thatcher in London in March has proved to be a launching pad for international action. The phasing out of chlorofluorocarbons (CFCs) which damage the ozone layer has been speeded up and the European Community and 80 countries meeting under the United Nations Environment Programme have agreed to end their use by the turn of the century.

But the success of the London conference has led to a more important development which has attracted little public attention. We are now seeing the early moves in the long process of drawing up a world convention to deal with the greenhouse effect of global warming - an immensely more difficult task than protecting the ozone layer.

Britain's enthusiasm for a convention was first expressed by Mrs Lynda Chalker, Minister of State at the Foreign Office, in a keynote speech to the Lord Mayor's banquet in April. It was embellished recently by Lord Calthness, Minister of State for the Environment, at the governing council of Unep in Nairobi.

Dr Mostafa Tolba, director of Unep, is also pushing the idea energetically, although he envisages it developing into an environmental security council with a policing role.

Differences of opinion are already emerging on how the issue should be tackled. In keeping with Thatcherite philosophy, Mr Nicholas Ridley, Environment Secretary, emphasises that the UK could not tolerate a body with supra-national powers and that there could be no overriding of national sovereignty.

After some initial dithering, President Bush has agreed that the United States should commit itself to work towards an international convention.

The great difficulty in tackling the problem of global warming arises because it is mainly caused by carbon dioxide from carbon-based fuels such as coal, oil and, to a lesser extent, gas. The carbon dioxide and other greenhouse gases form a blanket that prevents the sun's heat escaping



Mostafa Tolba: council with policing role

ward.

There is also dispute over the international machinery to enforce a greenhouse convention. A group of 23 countries led by France, Norway and the Netherlands, meeting in the Hague, proposed a new world environmental organisation backed by the International Court of Justice. But Britain boycotted the meeting and strongly backs Unep for this role.

The destruction of the tropical rain forests is another important cause of global warming but progress towards halting that process has been disappointingly slow. Brazil outlined a plan to protect the Amazon rain forest earlier this year, including a national fund for environmental protection. It was immediately criticised as inadequate.

There has, however, been progress in other areas. An international convention to control transport and disposal of hazardous waste was agreed in principle by 100 countries at Basle in March.

The EC has acted as an engine of change. Tough US-style car emission standards to reduce polluting exhaust gases have been proposed by the Commission, to come into effect by 1993. Britain has said it will go along with that, provided the intermediate stage in 1991 is dropped.

There has also been adoption of the EC directive to reduce emissions of sulphur dioxide and nitrogen oxide from large combustion plants, mostly power stations. These substances are the main cause of acid rain.

As far as the UK is concerned, the environmental pressure groups remain dissatisfied. They argue that a reluctant Britain always has to be pushed into action by the EC on environmental protection.

Greenpeace accuses the UK Government of being in breach of its obligations to the North Sea Conference by continuing to allow dumping of sewage sludge at sea.

These charges are denied by Mr Michael Howard, Minister for Water. Britain is not the main polluter of the North Sea, he says. Although responsible for half the coastline, the UK contributes only one fifth of the pollution and is reducing it. He says 95 per cent of Britain's rivers are in good or fair condition and that no other EC country can better that record.

There was embarrassment for the Government when the Commons Select Committee on the Environment delivered a scathing indictment of its record on the disposal of toxic waste. This was rejected by Mr Nicholas Ridley in equally scathing terms.

The Government has announced plans for tighter control over local authority waste disposal plants and further plans for tougher regulation of toxic and other wastes. These will form part of a Green Bill which will be introduced in the next session of Parliament in the Autumn.

The legislation is also expected to give teeth to the system of integrated pollution control and the clearing up of litter.

The bill's publication is eagerly awaited. It will be seen as an important test of the Government's good intentions and whether it has lived up to Mrs Thatcher's boast that "we Conservatives are not merely friends of the Earth - we are its guardians and trustees for generations to come."

# Airline fights Prestwick stopover rule

By James Buzton, Scottish Correspondent

AIR 2000, the British charter airline, is returning to court to challenge new government regulations requiring it to make a stopover at Prestwick airport on its flights between Glasgow and Florida.

The airline has lodged a petition at the Court of Session in Edinburgh seeking a judicial review of the Government's Scottish air traffic distribution

rules, which compel transatlantic flights to and from Scotland to land at Prestwick.

Under the rules, Air 2000's flight from Glasgow to Orlando, Florida, has to fly 32 miles to Prestwick in Ayrshire before proceeding across the Atlantic. It takes on fuel at Prestwick and changes crew. The airline estimates that the extra stops at Prestwick add

three hours to the journey and cost an extra £250,000 over the 26-week summer period.

The new rules were introduced as Mr Paul Channon, the Transport Secretary, rejected a request by the British Airports Authority for a review of Prestwick's status.

Air 2000 in April won a ruling in the Court of Session that the Transport Secretary had

exceeded his lawful powers when he compelled the airline to make the Prestwick stopover under the 1986 rules. The Government did not appeal but brought in new rules.

Air 2000 is to argue that the new rules are ultra vires and that Mr Channon should not have introduced them without formally asking for Civil Aviation Authority advice.

# Bond group 'close to deal' on St George's

By Hazel Duffy

BOND Corporation, the financially troubled Australian conglomerate, is thought to be close to finalising agreement with a buyer for a half share in the St George's Hospital and office development at Hyde Park Corner in central London.

Last month, Mr Alan Bond said that he was seeking joint venture partners for the corpo-

ration's main property development assets, including the St George's Hospital site.

The group had been engaged in large asset disposals in the last few months in an attempt to reduce its high level of borrowings.

Bond's acquisition of the site from Imry Merchant Developers in its annual figures reported last week, disclosed that it had made a net profit of \$20m on its sale of the project to Bond.

cent share. The balance was added six months ago as part of the plan to buy into the British property market through the acquisition of prime properties. The purchase cost Bond Corporation £68.5m in total.

Imry Merchant Developers, in its annual figures reported last week, disclosed that it had made a net profit of \$20m on its sale of the project to Bond.

The potential buyer is expected to be an overseas consortium with the funds available to carry through the development.

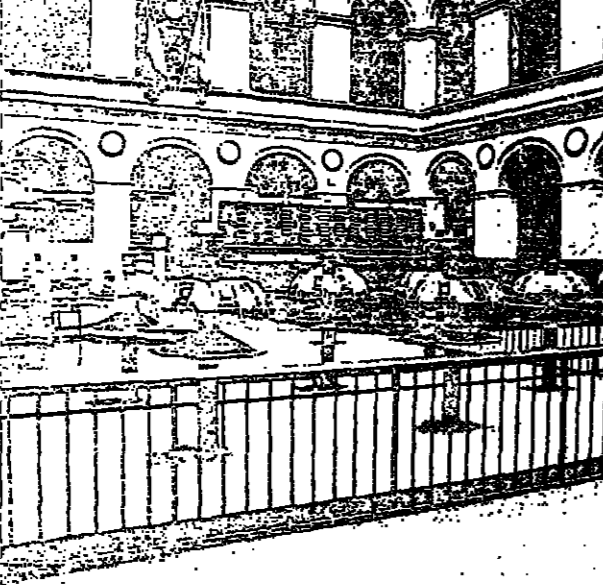
Work has already started to transform the old hospital, a listed building in one of the most prominent locations in London's West End, to a luxury hotel with an adjacent office complex.

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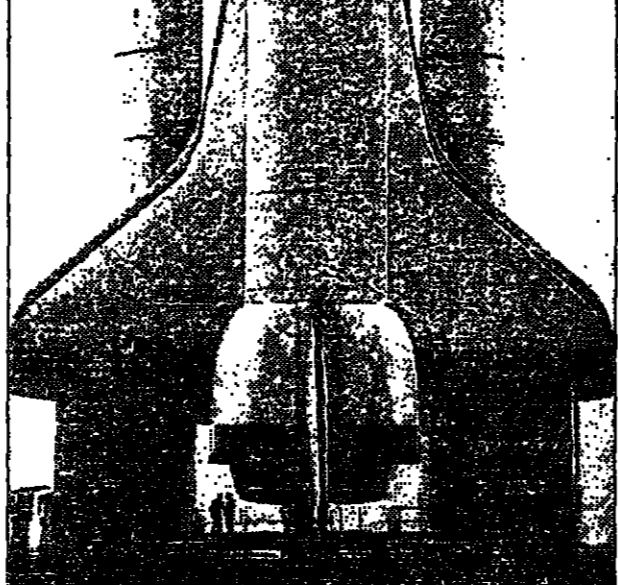
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UK NEWS

# Howe will face questions on Soviet bugging claim

By Michael Cassell, Political Correspondent

SIR GEOFFREY HOWE, the Foreign Secretary, will this week come under pressure from MPs to provide a Commons assessment of the latest state of Anglo-Soviet relations. The pressure will follow allegations at the weekend that the British intelligence services have bugged London buildings used by Soviet diplomats and trade officials.

Yesterday, Sir Geoffrey described the claims as a "rather amateurish" attempt at news management which appeared to have failed.

He added: "It is a manifestation of what we have come to call old thinking. There are certainly signs of old thinking persisting in parts of the Soviet administration. There are more encouraging signs in other respects."



Sir Geoffrey Howe: relationship assessed

The bugging accusations were made by Mr Leonid Zamiatin, the Soviet ambassador to London, in the wake of the renewed wave of expulsions involving British and Soviet officials and journalists.

Coming less than two months after the successful visit to London by Mr Gorbachev, the fresh accusations point to some further hardening of relationships between the two countries. Even so, the

deterioration in Anglo-Soviet relationships.

He added: "I think if Mrs Thatcher were somewhat less strident, somewhat less belligerent, the Soviets would respond." Both sides, Mr Kaufman added, bore responsibility for the situation and both sides had to respond.

According to Soviet officials, a number of listening devices were discovered in the walls of their trade mission in Highgate and in the West Kensington homes of several officials. A formal protest, calling on the British government to end what the Soviets called "provocative conduct", was delivered to the Foreign Office.

The allegations were at once rejected by Sir Patrick Wright, the permanent secretary at the Foreign Office, after a meeting with Mr Zamiatin. He told the ambassador that the type of listening devices involved, described by Sir Geoffrey as "rather antique objects", were widely available both in Britain and the Soviet Union.

Yesterday, Izvestia, the Soviet government newspaper, added to the allegations by claiming that two people may have died as a result of radiation emitted by the high-frequency bugging devices.

# Montupet given £37m to set up in Belfast

By Hazel Duffy

MONTUPET, the French car components manufacturer, was paid £37.5m by the UK Government earlier this year to help set up its new operation in the former De Lorean car plant in Northern Ireland.

Montupet announced its intention to invest in west Belfast last December and the assistance was paid in the first three months of this year. It need not necessarily comprise the total package of aid agreed between the Government and the French company, which the Northern Ireland Office refused to disclose.

British Business, the Department of Trade and Industry official magazine, lists the payment, along with other companies in Northern Ireland, simply as "a first payment".

The De Lorean plant had been empty for years after the collapse of the US sports car operation. The Government is still trying to recover some of the money that it paid to De Lorean.

It was a measure of the desperate need for jobs in west Belfast that there were no critical voices at the time of the announcement, in spite of memories of De Lorean. Montupet said it would employ 920 people in the aluminium foundry making cylinder heads, mainly for Ford's new engine plant at Bridgend in South Wales. Another 110 people will be employed in a tool-room operation elsewhere in Northern Ireland.

New facts on job creation in the province, to be published this week by the independent Northern Ireland Economic Research Centre, will show that jobs set up by locally owned companies have proved much more durable than investment attracted from Britain and overseas.

Over half the companies that moved into the province before 1978 have left.

Since the early 1980s, the Government has tightened up on the information and reporting procedures required from companies receiving aid.

Assistance in Northern Ireland is now all discretionary, as in the rest of the UK.

# Satellite TV slow to attract interest

By Raymond Snoddy

SATELLITE television is making painfully slow progress in the UK, with the proportion of the population saying they will definitely join the satellite revolution actually declining, according to the latest Financial Times Satellite Monitor.

At the end of May, four months after the launch of Mr Rupert Murdoch's Sky Television, an estimated 99,000 homes in Britain had their own receiving dishes, an increase for the month of May of just 12,000, compared with an installed total of 81,000 by the end of April.

As the total of older dishes of larger than 1 metre remains constant at around 30,000, that means that the installation of the small 60cm Astra dishes has risen from 28,000 in March to 63,000 in May.

Mr John Clemens, managing director of Kennington Research, which interviewed more than 4,000 adults for the Financial Times last month, said: "The overall picture emerging is not encouraging."

The actual number of dishes found in the sample - five large dishes and 11 small - is so small that the margin of error is probably plus or minus 20,000 homes. Kennington Research says it is confident, however, that the true number of homes receiving direct satellite broadcasts is between

70,000 and 110,000 - well under 1 per cent of all British households.

At the same time, the number of households saying they definitely intended to install equipment dropped from the April high of 4.7 per cent to the February and March level of 3.6 per cent, or 773,000 households, a 23 per cent slide.

The drop, which was concentrated in the final two weeks of publicity given to setbacks such as the cancellation of Sky Television's plans to launch the Disney Channel in the UK and the postponement of the rival satellite service from British Satellite Broadcasting until the spring, Pearson, publisher of the Financial Times, is a

member of the ESB consortium.

"Enthusiasm now needs to be rekindled and public confusion allayed by single-minded marketing," Mr Clemens argues.

"The opportunity exists for Sky now to do this as BSB is out of the market until the spring of 1990. The total market lead-up to Christmas, may possibly give Sky the chance it needs to build up the market," Mr Clemens says.

With those who say they will probably install satellite television some time added to the "definites", the total market potential stands at 19.3 per cent or 4.14m homes. That compares with 18.2 per cent or 3.9m homes in February.

back to the level of the early 1970s, due in equal measure to the rise in the productivity of capital, and the increase in the share of profits in the national income," he says.

The UK's return on capital needed to be further improved by continuing to raise the productivity of capital rather than the share of profits in the national income. That would result in the earnings of both labour and capital rising faster, but at about the same rate.

Assumptions that North Sea oil supplies are rapidly running out are false and new discoveries and developments should keep the UK "self-sufficient for a good many years to come," says the June issue of the Treasury's Economic Progress Report.

# Labour will renew its offensive

By Michael Cassell

LABOUR will this week renew its attack on the Government's economic strategy and attempt to expose what it sees as the continuing differences between Mrs Margaret Thatcher and Mr Nigel Lawson, the Chancellor.

After a weekend in which both main parties, as part of the run-up to next week's European elections, launched increasingly personalised attacks against their opponents' leaderships, Labour is to use its own Commons time on Wednesday to force Mr Lawson to defend his handling of the economy.

Mr Neil Kinnock, the Labour leader, told an election rally in Manchester yesterday that the Government had destroyed British industry, unleashed a credit surge, encouraged

imports and was now determined to give Britain "another clobbering" with the highest interest rates of any industrialised country.

With speculation still rife over the Chancellor's fate in the next ministerial reshuffle - many of his cabinet colleagues still believe he is likely to remain in his present job until next year - Labour will again try to highlight differences between the Prime Minister and some of her senior ministers on monetary policy and membership of the European Monetary System.

The Opposition's attack on the Government's economic record was overshadowed last week by the controversy surrounding the angry reaction in a radio interview with Mr Kin-

nock when he was asked to spell out Labour's formula for resolving the present economic difficulties.

Mr John Smith, the shadow chancellor, will lead this week's Commons attack. Labour intends to attack the Government over its high interest rate policy and hopes that it can use the occasion to force the Chancellor to demonstrate his continuing differences with Mrs Thatcher over economic strategy.

During a weekend of campaigning for the Euro-elections, Sir Geoffrey Howe, the Foreign Secretary, claimed that Mr Kinnock was unfit to be Prime Minister, while Mr Kinnock accused Mrs Thatcher of being unable to comprehend European unity.

# Long-term interest rates 'should be left to rise'

By Simon Holberton, Economics Staff

TO SUPPORT the pound and bear down on inflation, the Treasury should suspend its policy of fully funding the public-sector borrowing requirement, according to Greenwell Montagu, the UK gilt-edged broker.

Mr Roger Bootle, its chief UK economist, says the current economic situation "is so serious that the time has passed for the arrogant or ideological dismissal of policy options, other than the ones currently employed."

The Government's budget surplus takes money out of the economy and the full fund policy seeks to replace it by the Bank of England buying back from private investors and British government securities,

mostly gilt-edged stocks. Mr Bootle says that gilt purchases have artificially depressed long-term interest rates.

The suspension of the full fund policy would have three beneficial effects, Mr Bootle believes:

- Higher long-term interest rates would attract more stable foreign capital to finance Britain's current-account deficit and support the pound;
- Higher rates would absorb some of the liquidity of domestic institutions while weakening equity prices and raising the cost of capital;
- Higher rates would prevent companies and individuals from avoiding the Chancellor's tight-money policy by borrowing long-term.

# Pay 'will increase faster than profits for 1-2 years'

By Alan Pike, Social Affairs Correspondent

PROFITS in the UK economy may rise more slowly than pay for a year or two, Mr Christopher Johnson, chief economic adviser to Lloyd's Bank, suggests today. He says margins will be squeezed but will then recover.

During most of the 1980s, profits have risen faster than pay. But pay caught up last year, with wage rises accelerating and profits slowing down to a growth rate of about 11 per cent.

Profits per unit of output have been rising faster than labour unit costs during the 1980s after rising at the same rate in the 1970s, Mr Johnson says in the bank's monthly economic bulletin.

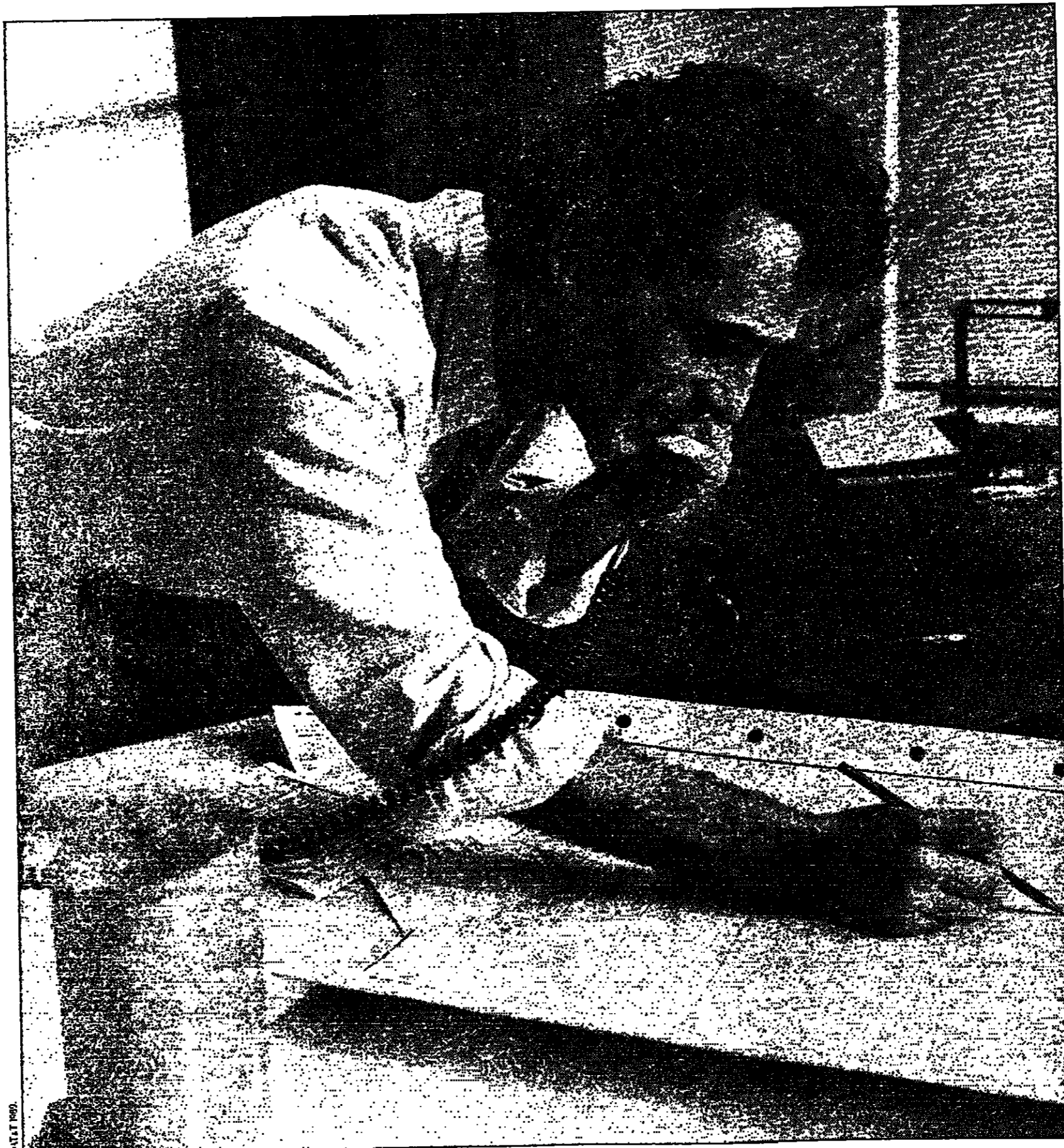
The return on capital has risen since 1981 to 7 1/2 per cent,

back to the level of the early 1970s, due in equal measure to the rise in the productivity of capital, and the increase in the share of profits in the national income," he says.

The UK's return on capital needed to be further improved by continuing to raise the productivity of capital rather than the share of profits in the national income. That would result in the earnings of both labour and capital rising faster, but at about the same rate.

Assumptions that North Sea oil supplies are rapidly running out are false and new discoveries and developments should keep the UK "self-sufficient for a good many years to come," says the June issue of the Treasury's Economic Progress Report.

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 "What do you think?"  
 "He must have begun to have his doubts about me."  
 "Who wouldn't after six dry holes!"  
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Then Eddie Boss was appointed chief executive - the 'buy-in' part.

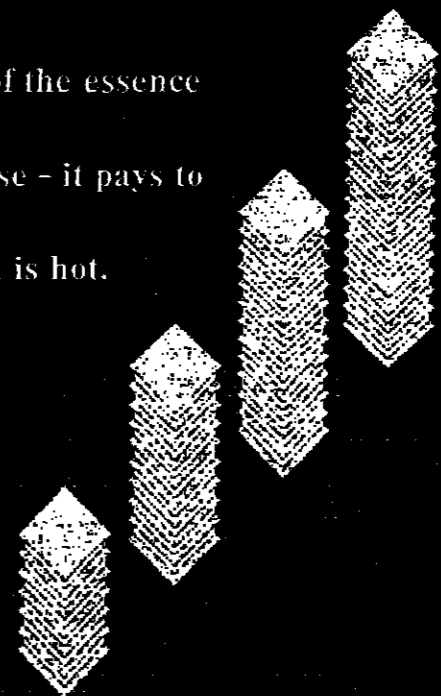
Also, he and the existing management were offered the chance to purchase up to 15 per cent of the company - the 'buy-out'.

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APPOINTMENTS

Prudential board posts

Mr Colin Southgate, chairman and chief executive of Thorn EMI, has been elected a director of PRUDENTIAL CORPORATION. Lord Hunt of Tanworth has been re-elected chairman, with Sir Trevor Holdsworth and Sir Alex Jarratt as joint deputy chairmen. Lord Carr of Hadley and Mr Desmond Craigen have retired from the board.

HALL ENGINEERING (HOLDINGS) has appointed Mr Peter Wilkinson as managing director of Hall & Pickles, replacing Mr John W. Brass who has retired. Mr Jerry Truitt is promoted from financial controller to finance director at Stado.

Mr David Morgan has been appointed company secretary of ROYAL INSURANCE HOLDINGS. He was deputy company secretary at Sun Life Assurance Society, and replaces Mr John Barber, who has been appointed assistant general manager (operations) of Royal Reinsurance. Mr Roy Randall has been appointed head of group corporate relations at Royal Insurance Holdings.

Mr Gerald Kaye has been appointed a director of LONDON & EDENBURGH TRUST. He is chief executive of LET Offices.



SMITHS INDUSTRIES has appointed Mr Christopher Taylor (above) as financial director designate, to succeed Mr Alan Hornsby in mid-October when he retires. Mr Taylor was group financial director of William Collins.

ROYAL BANK LEASING, Cheltenham, has appointed Mr Tom Carr as sales and marketing director. He was senior manager in charge of special projects at Lombard North Central.

BLUEBIRD TOYS has appointed Mr Paul Humphreys as managing director of Bluebird Toys (UK), and to the main board as an executive director.

CAPEL COURT POWELL, Australian stockbrokers, has opened a European office in London, and Mr Roderick A.

Independent member for AMP/London Life board

Following the first annual meeting of newly-merged AMP/London Life Mr John Sadler, recently retired deputy chairman of The John Lewis Partnership, has been appointed an independent member of the UK board. Mr Brendan McBride has been made London Life Fund

actuary. Mr Andrew Wakeling, financial controller of London Life, transfers to AMP New Zealand in September as deputy chief manager. Mr David Anderson, chairman, AMP principal board, retires at the end of January, and will be succeeded by Sir James Balderstone.

Chamberlain and Mr Bruce C. Hervey have been appointed directors.

STEEL BURRILL JONES GROUP, following the offer for Devitt Group becoming unconditional, has appointed Mr Jeremy Davies, Mr David Forsey, Mr John Horwell, Mr Anthony Mescock and Mr Nigel Rice as directors. Mr Horwell becomes deputy chairman.

STIEBEL OF NOTTINGHAM, part of the Tootal Group, has appointed Mr David Smalridge as managing director.

Mr Patrick Howard has been appointed to the new post of director, gifts and institutional coverage, NATWEST CAPITAL MARKETS, from June 12. He joins from Pamure Gordon, where he was director, gifts department.

Mr Peter Rose has joined CITIGATE COMMUNICATIONS as a director, corporate division. He was deputy director of information at the Home Office.

Mr Lindsay Mackinlay, who was an executive director of Rowntrees, has been appointed a non-executive director of STEBBLY. Mr John Kerridge, chairman and chief executive of Fisons, retires as a non-executive director.

Mr Bill Gissendanner has been appointed to the group board of ELLIS & EVERARD. He is chief executive of the group's US operations, and will continue to be based in Atlanta, Georgia.

NATIONAL BANK OF KUWAIT has appointed Mr George Dennis to head international fund management in London, and to oversee the operations of its two European-based investment management subsidiaries as managing director.

Mr T.L. Smith has been appointed managing director of KILBY & GAYFORD (HOLDINGS). He will continue as managing director of Kilby & Gayford (Building).

HAYS MARINE SERVICES has appointed Mr Duncan Hempstock, managing director of Crescent Shipping, as assistant managing director. He is succeeded by Mr Alan Petrie. Joining the board are Mr John Tait, as technical director, and Mr Sid Cass, who becomes managing director of Crescent Wharves.

Corporate finance advisory post

Mr Miles Emley is joining the corporate finance department of UBS PHILLIPS & DREW in London as a managing director, writes David Lascelles, Banking Editor. Mr Emley, who was formerly with Rothschilds, will be head of UK corporate finance.

The appointment marks a further stage in UBS Phillips & Drew's plans to develop its corporate finance advisory business alongside its existing strengths in banking and brokerage.

Mr Emley said he believed UBS Phillips and Drew marked one of the last opportunities that would be available for some time to contribute to the building of a serious corporate finance arm of an international investment banking business.

Mr Stephen Erlisby, the vice-chairman in charge of corporate finance, said he saw considerable scope for the expansion of the business, both in the UK corporate market and in cross-border merger and acquisition work.

Changes at Pizza Hut

From July 1 Mr Wess van Reimondijk becomes chairman and chief executive officer of PIZZA HUT's French and Dutch operations. He is succeeded as chief executive officer, Pizza Hut UK, by Mr Stewart Miller, director of

operations. Mr Chris Kelly, regional operations director, will become director of operations on the UK board. The UK Pizza Hut franchise is held jointly by Whitbread and PepsiCo.

Mr John Porter, general manager, has joined the board of DEBBERTT'S PEERAGE.

Mr Alan H. Burt has been appointed business development director of WIMPEY CONSTRUCTION MANAGEMENT.

Mr Thomas Redfern, company secretary and group legal adviser, has been appointed to the board of H. YOUNG HOLDINGS.

Mr David Bean has been appointed export director of

KALON GROUP. He joins from Laporte Industries.

SWISS LIFE INSURANCE AND PENSION CO has appointed Mr Chris Ide as general manager for the UK.

Mr Michael Woodall has been appointed managing director of AVCO TRUST.

Lord Rayne, chairman of London Merchant Securities, and deputy chairman of First Leisure Corporation, has joined the board of THE LONDON JAZZ RADIO.

BRINTEK has appointed Mr Michael Allopp to the board, to be responsible for food and drink exhibitions.

Lord Derwent, managing director of Hutchison Whampoa (Europe), has been appointed chairman of the LONDON AND PROVINCIAL ANTIQUE DEALERS' ASSOCIATION.

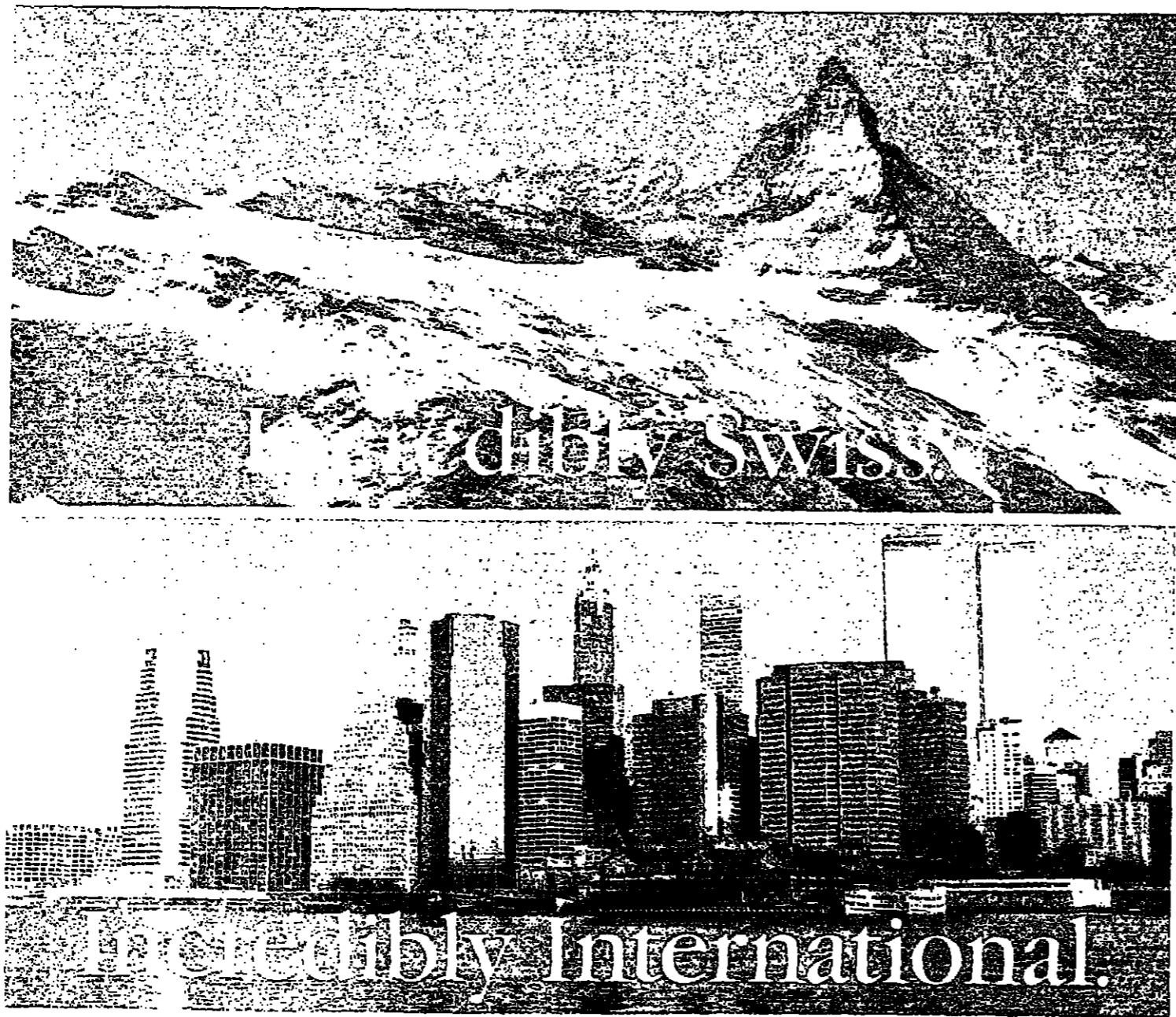
Mrs Lee Ann Thompson has been appointed a senior assistant director and UK marketing manager of COUNTY NAIWEST INVESTMENT MANAGEMENT. She joins from Irving Trust Co.

Mr Christian A.A. Mineef has been appointed chief executive and managing director of HARRISON & JONES (HOLDINGS), Manchester, UK arm of Bectel NV. He was managing director of Kay-Metzeler.

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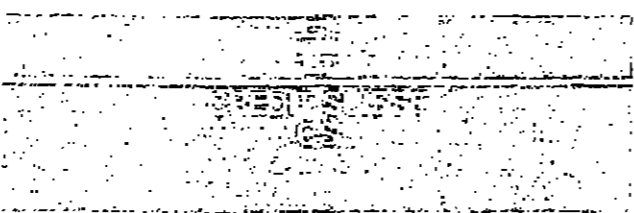
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Nestlé S. A., Cham a Vevey (Switzerland) Capital Increase 1989
Subscription offer to the holders of shares and participation certificates
As a result of an objection being raised to registration of the amendments to the Articles of Association which were approved by the General Meeting of the Shareholders of Nestlé S.A. on May 25, 1989, the new regulation concerning the registration of registered shares and the creation of treasury stock are now the subject of legal proceedings. The subscription offer made to the shareholders and the holders of participation certificates is not affected by these proceedings and will take place as planned.
On May 25, 1989, the ordinary General Meeting of the shareholders of Nestlé S.A. approved a proposal submitted by the Board of Directors to raise the share capital from Sfr. 339 000 000 to Sfr. 364 000 000. Additionally, the Board of Directors has decided to increase the participation capital from Sfr. 23 000 000 to Sfr. 24 000 000.
On the day of the aforementioned General Meeting of Nestlé S.A., a banking syndicate under the management of Credit Suisse, Zurich, subscribed for:
53 000 new bearer shares of Sfr. 100 par value each
111 350 new registered shares of Sfr. 100 par value each
50 000 new participation certificates of Sfr. 20 par value each
and offers them for subscription, from June 5 to June 21, 1989, at noon, to the present shareholders and participation certificate holders, as follows.
1. Ratio
1 new for 20 existing bearer shares
1 new for 20 existing registered shares
1 new for 20 existing participation certificates
2. Subscription price
Sfr. 4500.- per bearer, respectively registered share
Sfr. 900.- per participation certificate
The Swiss federal issue tax will be borne by the company.
3. Exercise of subscription rights
for bearer shares by submission of the coupons nr. 8 attached to bearer shares together with subscription form for bearer shares;
for registered shares by submission of the subscription right vouchers, which have been provided for, together with the subscription form for registered shares;
for participation certificates, by submission of the coupons nr. 8 attached to participation certificates, together with subscription form for participation certificates.
Subscription rights cannot be combined.
Subscription agents are the following banks:
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Union Bank of Switzerland, Zurich
Bank Leu AG, Zurich
Zürcher Kantonalbank, Zurich
Kantonalbank von Bern, Bern
and all Swiss branches and agencies of those banks, as well as:
Dorier & Cie, Geneva
Pictet & Cie, Geneva
BSI - Banca della Svizzera Italiana, Lugano
Crédit Commercial de France (Suisse) S. A., Geneva
Dresdner Bank (Schweiz) AG, Zurich
in Great Britain:
Credit Suisse, London
Swiss Bank Corporation, London
Union Bank of Switzerland, London
in France:
Crédit Commercial de France, Paris
Banque Paribas, Paris
in Germany:
Dresdner Bank AG, Frankfurt/Main
Dresdner Bank AG, Düsseldorf
in Belgium:
Banque Brézolaes Lambert, Brussels
in The Netherlands:
Parsons, Hebbink & Parsons, Amsterdam
in Austria:
Günzlerbank and Bank der Österreichischen Sparkassen AG, Vienna
in Japan:
Yamichi Securities Co. Ltd., Tokyo
4. Registration in the share register
The registration of the new registered shares Nestlé S. A. is regulated by the article 6 of the Articles of Association of the company.
5. Payment
Payment for the new titles is to be made on June 30, 1989, at the latest.
6. Title delivery
The bearer shares are issued as certificates in denomination for 1, 5 and 100 shares. The registered shares are issued as certificates without coupons. The participation certificates are issued as certificates in denomination for 1, 5 and 100 participation certificates.
7. Purchase and sale of rights
Subscription agents are prepared to negotiate the purchase and sale of rights. The negotiation will take place from June 5 to June 20, 1989.
8. The new shares and participation certificates are entitled to dividends as per January 1, 1989. Coupons Nr. 9 et seq. are attached to the bearer shares and to the participation certificates, while registered shares will be issued as certificates without coupons. Payment of the dividend will be carried out through assignment.
9. Applications will be made for the quotation of the new bearer and registered shares and the new participation certificates, on the Stock Exchanges of Zurich, Basel, Bern, Geneva, Lausanne and St. Gallen. Applications will be made for the quotation of the new bearer shares and participation certificates on the Stock Exchanges of Paris, Amsterdam (only bearer shares), Frankfurt, Düsseldorf, Brussels, Antwerp and Vienna.
May 30, 1989
Swiss Bank Corporation, Credit Suisse, Union Bank of Switzerland, Bank Leu AG, Zürcher Kantonalbank, Pictet & Cie, BSI - Banca della Svizzera Italiana, Crédit Commercial de France (Suisse) S. A., Dresdner Bank (Schweiz) AG, Lombard, Odier & Cie, HandelsBank NatWest, Banque Paribas (Suisse) S. A., Deutsche Bank (Suisse) S. A., Commerzbank (Schweiz) AG
Swiss Security numbers:
Bearer shares: 213.897
Registered shares: 213.895
Participation certificates: 213.890



## LEGAL COLUMN

## Taking a fresh look at solicitors' insurance

By Robert Rice

SOME 18 months after abandoning its Master Policy scheme in favour of a statutory mutual fund, the Law Society is again reviewing its arrangements for providing professional indemnity to solicitors.

The view of the society's standards and guidance committee, which has been looking at the issue, is that, for the moment at least, the maintenance of a statutory fund remains the most appropriate means of providing cover.

Any consideration of a return to a Master Policy scheme would be premature, it feels. Such a sweeping reversal of policy after so short a time could be interpreted by the market as an indication that the profession regarded the insurance of its own civil liabilities as being a poor risk.

That would not create a climate in which attractive firms could readily be achieved and premiums would again include an element of underwriting profit which the move to a mutual fund was designed to avoid.

Requiring solicitors to take out and maintain insurance with authorised insurers is still regarded as an attractive option by many firms, on the basis that the only true test of the risk posed by a particular firm is the placing of that risk on the commercial market.

The danger of that approach, however, is that some firms

would be unable to secure cover at all, or only on terms that were prohibitive. The decision as to whether a solicitor could practise would effectively rest with insurers, a state of affairs which the society would regard as unacceptable.

If indemnity were to be provided by authorised insurers, a "safety net" fund would almost certainly have to be set up by the profession to protect the public in those cases in which the insurers repudiated liability and the solicitor was

## A significant imbalance in contributions

unable to meet the claim. So any benefit accruing to individual firms from the freedom to arrange their own indemnity cover would be eroded by the requirement to contribute to the safety net fund.

The committee also looked at the question of whether, as a long-term option, the existing fund should become an insurer. That would require the Solicitors Indemnity Fund Ltd to change its status from a fund established under the Solicitors Act to become an authorised insurer.

The main advantage would be the ability to underwrite risks enabling contributions to be based on an assessment of the risk presented by an individual firm or solicitor. And there would be the additional advantage that contributions would not attract VAT.

But the chief disadvantage of converting would be that substantial reserves would have to be built up to provide the solvency margin necessary to secure authorisation under the Insurance Companies Act. Such contributions could only be built up by increasing significantly the premiums paid by solicitors to the fund.

Hence the decision to stick with the existing mutual fund for the time being. The problem is that the SIF is far from perfect, not least in the significant imbalance in contributions to the fund that it provides.

To assess whether an imbalance exists, firms are classified by numbers of partners. The majority of the profession is in firms in which there is a broad balance between the contribution to the fund and claims paid out.

The exceptions lie at the top and bottom of the scale. At one end, sole practitioners contribute 9.12 per cent of the income of the fund, but account for 16.2 per cent of amounts paid out. By contrast, firms with more than 25 partners contribute

14.32 per cent of the income of the fund, while accounting for 7.8 per cent of claims paid.

Correcting that imbalance is no easy task. The society accepts that relating contributions to risk necessarily involves an element of rough justice. A judgemental rating of individual firms or solicitors would have a flavour of underwriting and would be outside the fund's powers.

It can also be argued that one purpose of the fund is to uphold the good name of the profession as a whole. Inevitably, that involves the cost of providing indemnity to the bad, or even uninsurable, risk being borne in part by those who are blameless.

Then there are wider policy issues to consider. The profession as a whole has supported the principle of maintaining a network of local solicitors' offices around the country to provide the widest possible access to legal services to the public. Sole practitioners are an important part of that network.

The society's governing council would have to think very carefully before deciding that indemnity should only be offered to sole practitioners on terms which would increase their overheads to the point where it became uneconomic to continue in practice.

Statistically, it says the under contribution to the fund

by sole practitioners could be corrected by increasing their contributions by 80 per cent. Unless the society wishes to be seen as the instrument of their demise, clearly such an option is unrealistic.

It has opted instead for a strategy of reducing the amount paid out in claims arising from sole practitioners by increasing their self-insured deductible and by increasing the scope of cover in a way that will benefit the larger firms most disadvantaged by the imbalance at the moment.

## There are wider policy issues to consider

An increase in the self-insured deductible for sole practitioners has the advantage that the burden falls on those who claim. An increase to a minimum of £2,000 per claim would have the equivalent effect on the imbalance of an increase of 15 per cent in sole practitioners' contributions.

The society also wants to increase the existing cover of £500,000 for each and every claim, to £1m. The cost of this would be an increase of contribution rates. But if introduced

together with the increase in the minimum self-insured deductible to £2,000 in all cases, the net increase required would be about 7 per cent.

While most firms will pay more in contributions as a result of an increase in gross fees, this plan has the added advantage that it would not necessitate an increase in contribution rates this year to maintain the status quo.

The society is well aware of the adverse effect of the imbalance on larger firms, but it feels that its proposals for the current year will benefit them by reducing the amount of top-up cover they have to purchase, and, in particular, by making that reduction in what is normally the most expensive slice of cover.

For the future, it will look again at the adequacy of contributions by sole practitioners. It has asked the board of SIF Ltd to consider whether it would be possible to classify sole practitioners more exactly by the type of work they do and to increase contributions for those classes of sole practitioner doing the types of work more likely to give rise to claims.

Then there are always the issues relating to professional indemnity which will have to be addressed if the green paper proposal to allow multidisciplinary partnerships goes through.

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## MANAGEMENT

## Financial management

# Juggling with 850 per cent inflation in Brazil

John Barham on companies' valiant efforts to outflank economic gyrations

**H**ow do companies survive, indeed flourish, when inflation is extremely high? Against huge odds, Brazilians have become past masters at living with and profiting from their country's chronic inflation. In 1988 prices rose a record 834 per cent. The previous year inflation was 366 per cent, also a record. Now the inflation rate has temporarily subsided to "only" 8 to 9 per cent a month. Forecasters still expect inflation of at least 650 per cent this year. But inflation is only one facet of a wider economic crisis. Businessmen must also cope with unpredictable lurches in government policy, decayed infrastructure and an ever present risk of sudden economic collapse. A handbook on inflation by Price Waterhouse, the international auditing firm, says drily: "Doing business under high inflationary conditions means exposing oneself to a great risk of failure."

Inflation magnifies the effects of even the smallest mistake or mistimed decision. A slip-up can cost a company its market share and hence its profitability. When a company loses market share, it also loses the ability to impose frequent price increases, and its margins wither.

So high inflation demands rigorous financial and management discipline. Businessmen must be absolutely ruthless in wringing every penny out of their operations. All product lines must become profitable, all clients must generate profit and all waste must be eliminated. Companies that have survived this far are fit enough to make it through almost anything. The best organised companies have extremely tight financial controls. Dupont, which operates a \$200m subsidiary in Brazil, is a typical example. Henriques Ubirig, Dupont's vice president for finance and operations, says: "Our philosophy is to have a zero cash balance. Unfortunately we still have to sell in cruzados so we still have some exposure to inflation."

Dupont shields itself from inflation by using all income either to remit dividends or invest in industrial projects. Any surplus cash is immediately used to reduce local debt. Dupont protects its liquid cruzado assets with bank overdrafts. It draws on short term credit lines when its cruzado payments exceed receivables and uses special government bonds to offset its pristine credit rating commands the lowest interest rates on the market, around 15 per cent a

year in real terms. On average, Dupont never holds more than the cruzado equivalent of \$10-15m in any given month.

Brazilian companies usually adopt a less complex strategy. They simply deposit surplus cash on the overnight money market, which pays interest slightly below the rate of inflation. Chase Manhattan bank says that at best, overnight market rates have maintained an investor's capital over the past six years.

Since inflation gradually makes money worthless, all transactions have to be indexed. Traditionally, the government has provided a monthly indexation rate, which none the less underestimated inflation. Last year it had to introduce a daily rate. But this strategy it abolished in favour of a stamp-out inflation. It had to reintroduce an indexer in May.

**I**ndexation foreshortens time horizons. Companies raised prices faster and faster and demanded to be paid sooner and sooner. Suppliers now require payment within, at most, 30 days and tack indexation and interest charges on to their invoices. They offer discounts for early payment, but charge punitive fees of 3 to 4 per cent per month over inflation for delays.

Suppliers and clients are in constant, and sometimes acrimonious, negotiation over their contracts. Companies with the best reputation for cash management are invariably the slowest to pay but the most implacable in enforcing prompt payment. Stocks are generally held to a minimum, to reduce financial costs and exposure to inflation. Last year companies renewed their stocks every 90 days, on average. At the moment, they are renewing stocks every 45 days. Very often, however, stocks, like other tangible assets, provide as sound a hedge against inflation as the most sophisticated financial operations.

Constant price adjustments may maintain margins and keep companies well placed in case of a sudden change in economic policy, but they also make the government's anti-inflation measures less likely to work. Businessmen expect the government's next assault on inflation in August.

Yet inflation does have the virtue of enforcing efficiency. Many Brazilian businesses have set up computerised systems which detect changes in prices, costs and margins and enable managers to make immediate adjust-

ments to maintain their margins. And companies always seem to find ways of reducing costs. Dupont claims it has increased productivity by over 15 per cent a year for the past four to five years.

That is one reason why Brazilian companies still make money. In 1988, they earned an average 10 per cent return on net worth - astonishing under the circumstances. Large companies are also well advised by a broad range of experts to alert them to possible government policy changes, new tax dodges and investment opportunities. But when the government introduced a Summer Plan, its latest anti-inflation policy, it punished companies that had been anxiously hedging against inflation by investing in federal bonds when it reduced the paper's real value by adjusting its indexation formula below inflation.

Sound advice is essential under a government that has gone through four finance ministers in four years, adopted five different economic policies since 1986, and introduced two new currencies since 1986. That is why consultants tell their multinational clients to make sure they have a Brazilian finance director. It takes a Brazilian to predict and react to sudden, radical changes.

Most companies were ready for the Summer Plan and even absorbed the price controls that came with it. The 1986 Cruzado Plan, Brazil's first such shock policy which changed the currency from the Cruzeiro, caught many of them by surprise. It hurt companies with products that were already under government price controls, such as the car and drug industries.

Most companies have some products under permanent government control. Not only do the bureaucrats try to set prices as low as they can, but as inflation rises, so does the cost of the time lag between price adjustments. However, the government has also been known to award larger increases than necessary, by mistake. Companies so blessed stand to make massive profits.

Inflation makes companies export more. Competition may be fiercer abroad, but exporters are paid in hard currency. José Roberto Mendonça de Barros, a Sao Paulo business consultant, says: "Exports have grown spectacularly, because they are more profitable, but because they are more secure." Exporters and multinationals habitually salt away part of their rev-



enues in safe foreign banks, the best hedge against inflation there is.

Hedging has always been the top priority for multinationals. Treasurers have normally chosen gold or dollar-linked government bonds. However, government action in reducing paper's value, means that it is no longer a safe hedge.

But the volatile financial markets and unpredictable changes in regulations have made hedging almost as safe as a lottery. Sao Paulo's investment banks have identified a new market niche and are vigorously pushing sophisticated, and sometimes risky, hedging instruments.

Some are also jumping at the best. Hedging has become a form of speculation. One American banker says: "Hedging safely used to mean you could sleep at night, but we've got to the point where opportunity costs have increased so much that you have to get into speculation." Good finance directors are in heavy demand and command vast salaries. Last month, a finance director could earn a maximum \$3,800 plus fringe benefits, a princely sum by Brazilian standards. Salaries are adjusted monthly.

Previously, no multinational company would risk straying from the safest of dollar hedges. But in January, when the government cut the value of its bonds, froze the exchange rate and raised real interest rates to as high as 20 per cent per month, only the most conservative treasurers had second thoughts. They sold their dollar hedges and invested in government paper. Those that timed this right made a 34 per cent real return in the four months to April.

Risks are increasing. Presidential

elections are to be held on November 15 and businessmen fear the left-wing candidate may win. The currency has begun climbing. In March, one dollar cost 1.7 new cruzados on the free currency market. Now it costs three cruzados. Investors are also becoming less willing to hold government bonds because they are afraid the next government may refuse to honour them.

The more adventurous are buying property, gold, black market dollars and even farm produce to protect themselves from inflation.

Uncertainty discourages capital spending. Arthur Andersen, the accountants, estimate that in 1988, Brazilian companies could easily have invested an extra \$6bn without any trouble. Instead, they have piled up a vast cash hoard which yields more on the financial markets than any productive investment. Some companies have grown so cash rich over the years that their treasury departments now operate like small investment banks. Indeed last year, four major industrial corporations set up a real investment bank of their own.

But there are limits to speculation. Stephen Charles Kambz, a Sao Paulo University accounting professor, cautions that companies invest no more than 2.7 per cent of their assets on the money market. Ubirig of Dupont, comments: "We do not speculate. We do not even buy gold. We are a chemical company, not a bank. It's a question of priorities."

Other companies are less persevering. Infuriated by the complexity of living with inflation, price controls and an ever-messier Brazilian economy, many multinationals have simply left the country.

# Companies need the will to listen

Michael Skapinker on the benefits of corporate responsibility

**W**est German companies have been quick to spot the UK demand for environmentally sound products, a Confederation of British Industry conference was told last week. UK companies, on the other hand, have been left floundering. John Elkington, co-author of the Green Consumer Guide, said that British oil companies had shown environmental awareness, "but the ordinary consumer product people have been appalling. They have tended to see environmental awareness as a problem, not a market opportunity."

Yet the growth of the green movement would have come as no surprise to anyone who had kept an eye on the changing concerns of British consumers over the past few years.

So, too, companies that had maintained links with schools would have been aware of the sharp drop in the number of school-leavers.

Some of these companies have been trying to make up the shortfall in new entrants by attracting experienced female staff back into retailing and clerical jobs. They have, in the process, come to realise that child care will be one of the major issues of the 1990s. But employers of more highly-paid staff need to deal with the problem too. They may think they pay their staff sufficiently well for them to make their own child-care arrangements. Their employees, however, are already having difficulties finding women to care for their children, regardless of how much they can afford to pay them.

How can companies anticipate such problems, thereby retaining their staff and protecting their markets against the incursions of more forward-looking competitors?

One way is to involve themselves with the community in which they operate, according to a new book, *Good Business: a Guide to Corporate Responsibility in a Business Ethics Era*, which argues that "one of the fundamentals which separates you from your competitors is the quality of your information. The community is awash with information, if you have the will to listen."

The authors, Sheena Carmichael and John Drummond, provide other examples of the way companies can benefit from their involvement with the local community.

By the 1970s, Honeywell, the US electronics group, had outgrown its headquarters building in Minneapolis. The building was surrounded by derelict housing in an area with few amenities. Other companies had solved the problem by moving out to the suburbs. Honeywell decided to stay where it was and to extend its existing building. The company spent the money it saved on the local community. Together with the local authority, it helped to build houses and improve transport.

"The local authority opened an art gallery. Shops moved in. What they ended up with was an inner city which was a good place to live and work in, offices which met their needs, and a first-rate reputation in the local community. And it all cost no more than the move to the suburbs would have done," the authors say.

Companies which regard themselves as novices at community involvement are probably already doing more than they realise, the book says. "Each branch, division or factory within your company is being approached all the time. The chances are that you are responding to these approaches, but in an un-directed, unstrategic way.

The first task is to find out what you are already doing. The second is to decide what you should be doing. "Find out where your staff think priorities lie. Having identified these areas, decide which of them are important to your company. If you are worried about the low educational standards of new employees, offer your company's help to schools and colleges. The book warns against involving the company in activities which it has no interest in. "There can be no social contract without a mutual interest," it says. (Hutchinson Business Books. £15.95 hardback. £6.95 paperback)

## LEGAL APPOINTMENTS

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## COMPANY NOTICES

## The RTZ Corporation PLC

## NOTICE

To Holders of Warrants to Bearer

ORDINARY SHARES OF 10P EACH  
NOTICE IS HEREBY GIVEN THAT a Final Dividend of 10.75p per Share will be paid on 3rd July 1989 in respect of the year ended 31st December 1988. Payment of this dividend will be made after presentation of Cheques No. 58 at any of the undersigned offices of payment.

3.1% "B" CUMULATIVE PREFERENCE SHARES OF 1P EACH  
NOTICE IS HEREBY GIVEN THAT a dividend of 1.75p per Share will be paid on 3rd July 1989 in respect of the year ending 31st December 1988. Payment of this dividend will be made after presentation of Cheques No. 54 at any of the undersigned offices of payment.

## OFFICES OF PAYMENT

The RTZ Corporation PLC (Registered Office) 6 St. James's Square London SW1A 1HQ	The RTZ Corporation PLC (Transfer Office) Central Registration Limited 1 Fenchurch Street, Grand Bldg 50VT London EC3A 3BR
Generale de Banque 3 Montebello Street 1000 Brussels, Belgium	Generale de Banque de Luxembourg S.A. 16 Rue Aldringen Lussemburg
Generale Internationale a Luxembourg S.A. 2 Boulevard Royal, Luxembourg	Generale de Banque Suédoise 18 Rue Aldringen Lussemburg
Union Bank of Switzerland Bankstrasse 45 CH-8001 Zurich, Switzerland	Swedish Bank of Stockholm CH-4002 Bank, Switzerland
Credit Suisse SLS, 8001 Zurich, Switzerland	

Under the legislation in force in the United Kingdom these dividends will be payable without deduction of United Kingdom Tax and for shareholders resident in the United Kingdom will carry a tax credit calculated by reference to the basic rate of Income Tax applicable at the date of payment. Where a double tax agreement so provides the shareholder will be entitled to the United Kingdom net tax credit, against which some United Kingdom Tax may fall to be offset.

Cheques, which must be filled on special forms, which can be obtained on or after Monday 28th June 1989 at any of the above offices, may be deposited on or after Monday 12th June 1989. Cheques presented for payment in the United Kingdom must be filled FIVE CLEAR DAYS for presentation.

Shareholders should note that under the Company's Articles of Association, provision is made for the forfeiture of the above dividends if not claimed within 12 years from the date of declaration.  
D St. James's Square  
London SW1A 1HQ  
2nd June 1989  
By order of the Board,  
F. S. WICKLEY  
Secretary

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ARTS

Almeida Festival

ALMEIDA THEATRE, ISLINGTON

As always, this year's festival with important sponsorship by Lufthansa - is an overflowing cornucopia...

instinct all'italiano. Of the Madama "serenades and solos" Knussen chose for Friday, his comic settings from Boswell's Venetian Journal...

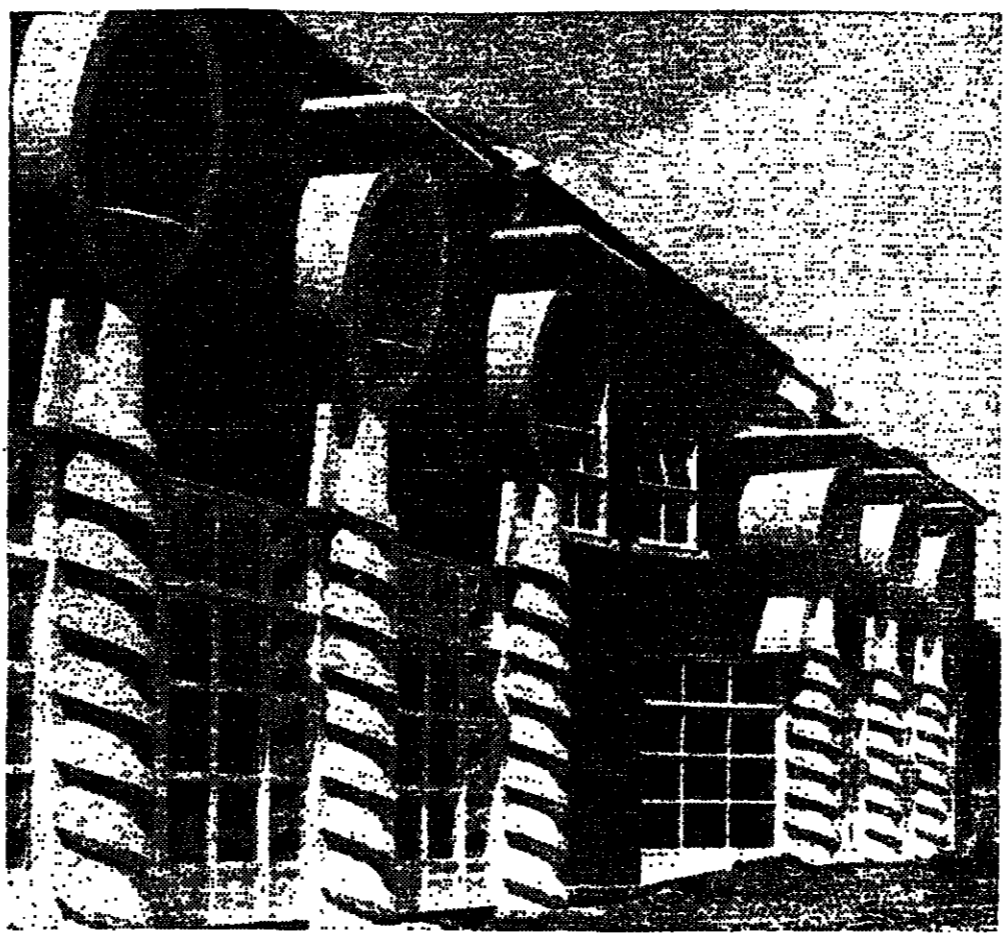
David Murray

One of the strands in this year's prodigiously rich and varied festival pattern is the music of the Frenchman Jean Barraqu  (1925-73)...

whose greatness is accessible only to a tiny few deeply suspect, not to say bogus. Yet the fascination of the music remains: most of it, including the Piano Sonata...

Argument is all, conducted with a ferocious rigour and intensity that cannot fail to strike even the most sceptical or hostile of Barraqu s listeners...

Max Loppert



Piers Gough's computer studies building for Bryanston School

ARCHITECTURE

Context is the buzz word

"We are all no more than life tenants of our heritage and we have a moral duty to pass it on in as good a condition as that in which we received it..."

On a fine May afternoon I was the only visitor to this display gathering dust. It deserves a wider audience and perhaps will receive one on its European tour...

Colin Amery

There is another intelligent architect, Roderick Graddidge, who has carved a niche for himself in the design of country houses...

The curious fact remains that a body like the Royal Fine Art Commission can still be completely schizophrenic about conservation...

The Secretary of State for the Environment, Mr Nicholas Ridley, is currently looking at his inspector's report and will soon have to decide whether or not to allow this scheme...

Colin Amery

Sponsorship

At the last minute, (hypothetically speaking) the Royal Academy has found a sponsor for its mammoth autumn exhibition devoted to photography. To be exact it has got two sponsors...

Next Saturday the RA's Summer Show, the traditional start to the London Season, opens to the public. The main sponsor is Kohn/Ferry...

There is no overall sponsor for the Summer Show as such. Last year Esso gave around £100,000 for the privilege but since the RA makes a profit from the show...

Tonight a small miracle takes place in west London. Earls Court, which usually resembles a vast, empty arena...

The price has been upped because Carmen is to be televised live on both Channel Four and Sky. It already gets a mention on every advertisement, leaflet, and radio commercial...

Seventy more companies are each paying £8,000 to hire one of the ten marquees that have been erected around the performance area...

Western Motor Holdings is not the most famous company in the world and this is the first time it has ventured into any form of sponsorship. It has strong East European links...

Because the sums involved in bringing over a company with more than 200 members are so monumental, BOC is assembling some of the sponsorship burden...

On top of the overseas sponsorship, eight companies have bought into the occasion, holding party evenings organised by Belle Shenkman...

It is almost unprecedented for sponsors to back amateur projects. The Royal College of Music Opera school production of Eugene Onegin has received £10,000 from the auditing firm of Ernst & Whinney...

Antony Thorncroft

Es war einmal

RADIO 3

The operas of Alexander Zemlinsky, together with those of his contemporary Franz Schreker, are very much a flavour of the moment...

When he prepared the first performance, Mahler took it upon himself to suggest changes to the text and music, and even went as far as rewriting the closing pages of the first act...

But first of all, the positive aspects of this exhibition are being emphasised. It is true that in the inner cities the remaining old or listed buildings, when renovated, often provide the catalysts for more general renewal...

Andrew Clements

ARTS GUIDE

Table with columns for location (London, Frankfurt, Berlin, Vienna, Paris, Rome, Brussels), event name, and details (time, venue, ticket prices).

Saleroom

The Pontormo effect - the anticipated fillip in demand for Old Masters following Christie's sale on Wednesday of a portrait by the 16th century Florentine artist Pontormo...

lowed, the London dealer Johnny van Haeften paid £1.85m, ten times the estimate, for a Dutch interior by Jan Steen...

Antony Thorncroft

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Saleroom. The Pontormo effect - the anticipated fillip in demand for Old Masters following Christie's sale on Wednesday of a portrait by the 16th century Florentine artist Pontormo...

**FINANCIAL TIMES**

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Monday June 5 1989

# China's giant step backwards

**CATASTROPHE HIT China** at the weekend. An intervention by the military against the student protests in Peking was long expected but its sheer brutality stunned even those experienced in the less humane aspects of China's history.

The fact that a large heavily armed force was able to massacre a crowd of peaceful and unarmed protesters does not in itself clarify what is happening at the top of China's deeply divided leadership. It does make clear, however, that the small group of survivors from the Long March currently in some sort of control under Deng Xiaoping are unconstructed totalitarians. Their disregard for human life raises questions which now require urgent responses from the international community.

The events of the weekend make nonsense of Deng's international image as a reformer and supporter of liberal thought. His responses to the student protests of recent weeks and his manoeuvrings against the liberals within the party hierarchy underline his position as a deliberately authoritarian, determined at all costs to retain political control through the party. The labelling of demonstrators as "counter-revolutionaries" echoes the illiberal and confused rhetoric which accompanied China's erratic progress through the 1950s, 1960s and 1970s.

### Human rights

The West and, latterly, the East bloc wished to believe that it was dealing with a new and different type of regime in Peking under Deng's leadership. This was undoubtedly true in terms of economic reform and the move towards more human and political rights, and the West may now be regretting that it paid too little attention to the question of status and minority rights and the oppression of ethnic minorities, notably in Tibet. Deng has commented that the West is more concerned with markets than with the fate of individuals. He has now thrown away 10 years of carefully orchestrated international public relations in one unnecessary, bloody night.

Now is the time to make the West's views on these matters clear and for Britain, in particular, to recommit itself to the future of Hong Kong, due to be transferred to Chinese sovereignty in 1997.

There are a variety of ways the international community can respond. First, displeasure needs to be expressed unequivocally through all available diplomatic channels together with reminders that investment, trade (notably arms deals) and ventures to help China's economic modernisation cannot and will not continue if the Government behaves in this way. China's fellow members of the United Nations Security Council should also make plain their horror — which will be an interesting test of the Soviet Union's willingness to line up against a Communist power which it has recently achieved a rapprochement.

### Good faith

The international community might also usefully express its anxiety to Britain about Hong Kong. Britain has long taken a deliberately optimistic view of China, seeking to accommodate its wishes on Hong Kong in the interests of good relations with the Peking Government. The Sino-British agreement of 1984 on the future of Hong Kong was predicated on the good faith of the Chinese Government in guaranteeing the internal integrity of Hong Kong for at least 50 years after 1997. How much is that good faith worth now?

Further negotiations on the minutiae of a Basic Law for the Hong Kong people after 1997 are not in line with the present regime in Peking; and the British Government will now have to take the issue of the future of the Hong Kong people more seriously than hitherto. This may mean reopening the question of status and minority rights and finally responding to demands for democracy (now reinforced by last month's demonstration of between 1m and 2m Hong Kong people in support of the Chinese democratic movement). Above all, it means no longer kowtowing to a regime which cannot be trusted.

# No tears for the Imam

**EXTENSIVELY** anticipated and several times prematurely announced, the death of Ayatollah Khomeini, leader and guide of Iran's Islamic revolution, has at last occurred. The Islamic Republic itself is plunged in mourning, much of it no doubt sincere and sincerely shared by Moslems in other countries. For many Moslems Khomeini's achievement in overthrowing the Westernised regime of the late Shah, and in establishing a 1,400-year-old religion as one of the main competing political ideologies of the late 20th century, far outweighs the various shortcomings, not to say barbarities, of his ten years in power. We in the West have had to grapple with this phenomenon, and have come to accord it a grudging respect, accepting that non-Western peoples wish to express their "identity" by seeking inspiration in their own tradition rather than in Western values.

Perhaps only Lenin and Hitler in this century have encouraged a comparable authority to the worldwide hegemony of post-Enlightenment Western liberalism. Khomeini's challenge is less formidable than theirs in that Iran is not, and seems unlikely to become, a military power comparable to Germany or the Soviet Union. But it is in one sense more radical, because it purports to come from right outside the Western tradition. In fact, as Dr Sami Zubaida points out in a recent book, "The modern nation-state, an essentially Western concept, is an important unstated premise of Khomeini's political theory. But the attraction of that theory to many Moslems is that by adopting it they believe they can free themselves from the tyranny of Western modes of thought.

**Physical force**

For anyone who remains attached to Western liberal values Khomeini's theory and practice alike are peculiarly unattractive. He imposed a narrow definition of virtue by the use of physical force which often took very primitive forms but by no means scorned the aid of modern technology, and he claimed supreme authority for the *faqih*, or expert in divine law, who turned out to be himself.

### Power struggle

Like other absolute rulers, Khomeini was shrewd enough to delegate power in small doses, maintaining a balance among his advisers. His departure thus sets the scene for a classic power struggle, in which the battle lines may well not follow the neat division between radicals and moderates for which Western political analysts yearn.

For what it is worth, President Khomeini has recently been cast as one of the pragmatists; and the fact that he has now been endowed with supreme religious authority — the title of "ayatollah" — as opposed to an ayatollah, is itself a pragmatic move. More important, perhaps, is the speed with which the decision was taken, showing that the regime at least has sufficient cohesion to act promptly in a crisis. Fast experience suggests that policy choices are dictated less by the identity of the winning faction than by the stage the battle has reached: it was after the victory of the radicals in 1980 that the US hostages were released.

The conclusion reached by the "pragmatists" last year, that in the end Iran cannot afford to be isolated in the international community, is one likely to impose itself sooner or later on any faction whose interests become identified with successful management of the state, rather than with finding failures to blame on its opponents. That being so, Western interests will be best served by a concerted diplomacy holding out the prospect of tangible benefits if Iran's isolation is broken, but ensuring that isolation continues and grows more complete so long as Iran persists in flouting the established norms of international behaviour. *"Islam, the People and the State" (Routledge, £27.95).*

**I**n the neat Yorkshire town of Lightcliffe, Crosslee, is enjoying another booming year of production and exports. Around 350,000 machines will roll off its manufacturing lines in 1989, a fifth up on last year. More than half will go abroad, installed in kitchens from Oslo to Madrid. Like many companies in the UK, Crosslee's factory is busy and its distributors are selling more outside the UK than ever before.

Buried in Crosslee's operating figures, however, is a curious detail. It costs the company 27p less per dryer to transport a full truck load of products to Frankfurt than it does to Southampton. "The reason is simple," says Mr Derek Clee, joint managing director. "There are so many foreign trucks coming into West Yorkshire bringing in imports that their operators are desperate to find any loads to take back to the Continent." Crosslee's trucks costs highlight one of the most pressing issues facing the British economy. While factories are generally bulging with work, the trade deficit which emerged in manufactured products in 1982 has opened into a yawning chasm. "Our goods other than oil has tumbled from a surplus of £245m in 1981 to a deficit of £22.9bn last year. Even after including the positive contribution of oil, the deficit, excluding services, had reached £20.5bn. In manufacturing equipment alone, excluding processed goods such as food, it amounted to £14.5bn — and in the current year, this part of the deficit looks to be heading for £18bn.

Britain's soaring appetite for foreign products was due in part to what many economists regard as benign trends in manufacturing industry. Imports of foreign machine tools and other production equipment, for example, went up 21 per cent in 1988. UK companies revamped production lines. At the same time, rising imports in some narrow product areas were matched by increasing exports of others, a shift of emphasis that would have seemed a worldwide move towards greater specialisation. This happened, for example, in capital goods, where import growth was balanced by an 18 per cent jump in exports.

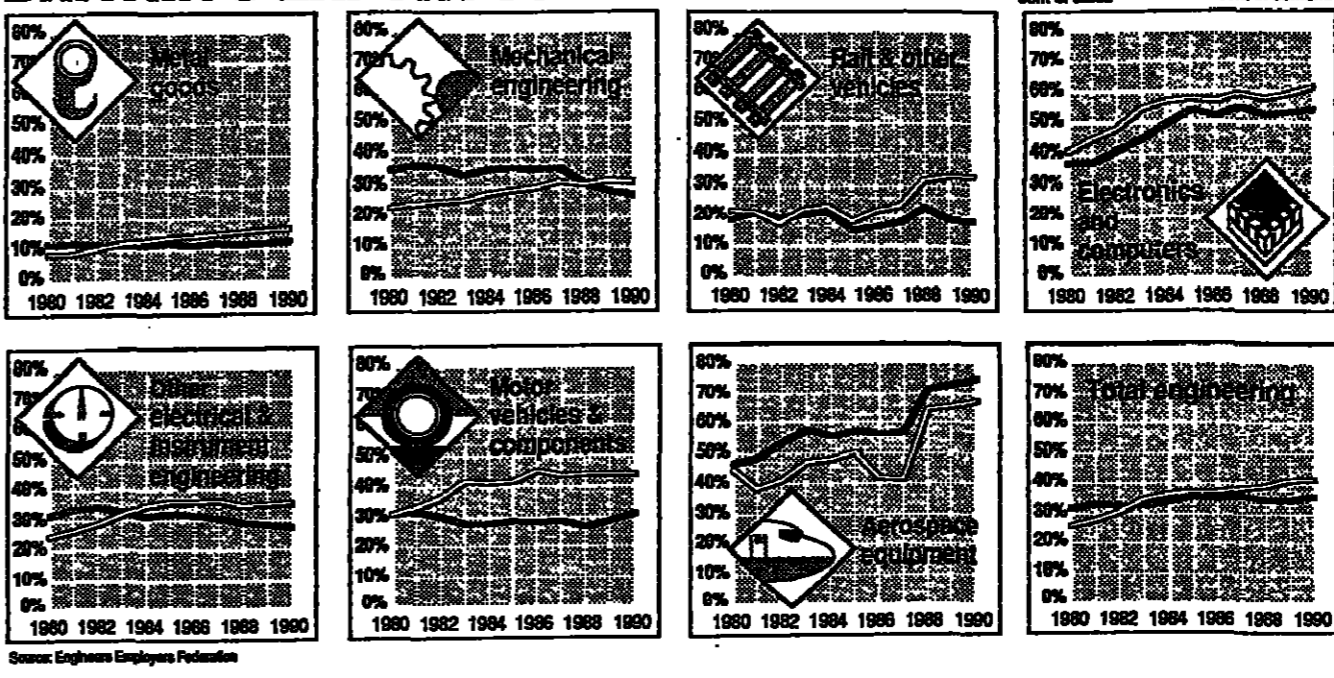
The big problem occurred in the much more visible area of consumer demand, where foreign products, from West German luxury cars to Japanese compact disc players and French fitted kitchens, flooded the market, forcing UK manufacturers to cut prices. In these industries, UK companies were left high and dry.

According to a report by Mr Walter Ellis, director general of the National Economic Development Office, imports of consumer goods rose by almost 18 per cent in 1988, while exports were stagnant. Three large-volume consumer industries, motor cars, textiles and home electronics, accounted by themselves for £2.5bn — well over half of the trade deficit in manufacturing goods.

The surfeit in demand in all these areas is now under attack as punitive interest rates take some of the sting out of the high street boom and the runaway housing market. But as imports fall, attention will shift to British industry's ability to switch production into export mar-

## Terry Dodsworth and Nick Garnett analyse the poor showing of much of British industry in world markets

### BRITAIN'S EXPORT PERFORMANCE



Source: Engineering Employers Federation

# Laggards in the exports race

Which sectors are equipped to help close the trade gap?

Some industrialists believe British manufacturers are better placed to make such a competitive effort than for many years. Structural reorganisation in UK companies and the industrial environment — the so-called supply-side revolution — has, they claim, led to lower costs, and better design, delivery times and quality.

Sir David Plastow, chairman of the Vickers engineering group, argues that the capacity cuts in the early 1980s have created a new breed of UK manager. "British industry went through a traumatic time

we can continue as an industrial country. But I don't see the deficit disappearing easily. There is a world of difference between companies which are serving this country and those which are out there competing overseas."

Doubts about Britain's ability to compete more effectively cover a range of issues: There are some large-scale industries where UK manufacturers do not have the scope to turn the tide over the short to medium term. The outstanding example is cars, where UK production capacity is about 1m units short of domestic demand alone.

While there are hopes that production from the new Nissan and Toyota plants will begin to erode the gap by the mid-1990s, most of the large-scale producers in Britain are foreign-owned. A big commitment to exports because they have plants elsewhere in the region. Rover, the remaining UK-owned producer, is reducing capacity. While foreign-owned manufacturers now have well-established distribution networks in the UK, the survival of some plants, such as Peugeot's in the Midlands, might be questionable if there were a widespread market downturn.

### Long-term recovery may depend on the policies of the UK's foreign companies

in that period, but contemporary management in the UK is as good as most in the world."

However, plenty of industrialists, many of them exporters themselves, take a much less optimistic stance. They tend to argue that while individual UK companies might be doing well, the big picture picture will not be good enough to redress the balance.

"In the last 10 years there has been a big improvement in efficiency in Britain," says Mr Len Weaver, chairman of the Jones and Shipman machine tool company, which exports more than half its production. "Productivity has grown, and people are no longer shaking their heads and wondering if

competitive against dollar-based competitors.

This issue is critical in textiles, and in aerospace, which is one of the outstanding UK trading successes in the 1980s, with a trading surplus last year of £17bn. UK aerospace groups have become so dependent on American sales that they are increasingly trying to base established plants overseas to be closer to their customers. GKN, the diversified engineering and services group, for instance, exports less than half as much to the US today as in 1970, despite a 67 per cent increase in its American sales.

● **The trend towards increasing foreign investment may have short-term trading penalties that will only be offset by benefits in export markets over a longer period.** This point is extensively argued in the book *Microcircuits of Capital* (1988, Polity Press) in which Mr Kevin Morgan and Mr Andrew Sayer, two Sussex University economists, point out that the deficit in the UK's trade in electrical and electronic goods has continued to rise despite heavy investment by foreign producers. In the early stages of such investment many companies have to import components and tooling equipment.

open market for foreign component and other equipment suppliers. Crosslee, for example, has abandoned its buy-British policy because of currency uncertainties, purchasing motors in the US, plastics in Spain, stainless steel in France and Belgium, and switches from West Germany. Many British component producers have established plants overseas to be closer to their customers. GKN, the diversified engineering and services group, for instance, exports less than half as much to the US today as in 1970, despite a 67 per cent increase in its American sales.

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● **UK companies were left high and dry as foreign products flooded in on credit**

Some industrialists believe these inadequacies in Britain's manufacturing portfolio will now weaken the attempt to switch production into export markets. According to the Engineering Employers Federation, for example, the only sector in trade surplus among the metal-related industries, encompassing scores of sectors from electronics to heavy engineering, is aerospace and defence equipment. Even mechanical engineering is heading for a deficit this year for the first time in living memory. In the newer, high-technology industries, the UK appears to have settled in a position of long-term structural imbalance in areas such as computers and microchips. ● **The UK has become a wide-**

These producers, they say, bring technology, a long-term commitment to manufacturing that is often lacking in British industry, and a willingness to invest in grandiose projects that has rarely been seen among UK-owned companies for a decade. Mr Gilbert Johnson, chief executive of JCB, the construction equipment maker which is one of Britain's outstanding competitors in world markets, speaks for a lot of industry when he dismisses government talk of a quick turnaround in the trading imbalance. "I think a lot of ministers talk absolute rubbish," he says. "A lot of things might help, but I think that for volume products you can only look to projects like the Toyota car investment in Derbyshire."

## Not so quiet Georgetown

Americans are getting a pleasurable thrill out of the report that Fawn Hall, Oliver North's sensationally attractive secretary and purportedly confessed to Federal drug agents that she was a weekend cocaine user while she was engaged on very secret government work. For some residents of Georgetown, however, the news, revealed in the Washington Post yesterday, is likely to arouse more fear than pleasure.

Hall, the Post says, made her confession to agents of the Drug Enforcement Agency nearly two years ago, as part of a still unfinished investigation into drug dealing in the expensive clubs and bars frequented by influential Georgetowners. The pretty inner suburb is not quite as fashionable as it was in the Kennedy era, but it still houses far more than its share of high officials and party-givers, especially in the scandal-ridden Democratic Party.

The Democrats are already incensed about leaks from prosecutors in the Department of Justice. The leaks have been used to blacken the names of a number of senior politicians who have been involved, either directly or through their staffs, in investigations.

Now the drug enforcers appear to be leading as well. Hall was surely not the only well-known user they questioned in their efforts to get at the dealers. What other names are going to emerge in the long, hot scandal season which Washington is already dreading?

## OBSERVER

your position is as follows."

It then lists seven points, including: "Self-regulation as we know it" will end if you. Everything done or said by "the other side" tactics whereas everything done or said by your side is in the interests of shareholders generally. You are astounded that a bank of the standing of "the other side" advisers should permit itself to be acting in such a case. Either your FR man has played a very minor role and could not possibly be responsible for what has occurred or you are afraid that your FR man is new and "has been on a frolic of his own". You and your client have the greatest respect for the Panel and support the system; however, your position is becoming impossible because "one side is playing by the rules and the other is not". Everyone who is not of your view is acting in concert with "the other side".

### Cleaning up

"The Reagan Administration began to lose the battle against pollution in 1982-83. It just gave up on it," says William L. Mills. Mills should know: he was a member of the President's Council on Environmental Quality from 1983, could have stayed on under President Bush, but has since switched to the private sector.

Mills is in Europe this week, along with a team from a company called Polar Molecular Corporation of Saginaw, Michigan, to which he has become a full-time environmental consultant. PMC claims to have invented a fuel additive that not only reduces engine wear, but also improves mileage and

performance. Known as DurAll EC, it works in gasoline and Diesel engines.

PMC is a smallish company, however, and wants to retain its independence. In this particular field, it believes it is ahead of the oil and chemical majors. So the firm is making a presentation in the City today, before going on to other parts of Europe.

It also hopes to make its mark on the track. PMC has recruited Lyn St James, America's top woman racing driver, to compete at Le Mans next weekend in her racing-prepared Ford Mustang, topped up with DurAll.

### Girls on top

"To declare an interest for the past two years I have been an assessor in the national Young Enterprise awards. The standards in this admirable scheme seem to get higher and higher, yet one is still surprised that so little appears to be known about it in London.



For the uninitiated, the scheme consists of sixth formers setting up their own company — maximum share capital £150, at 25p a share producing annual turnover of £100. Some 18,000 of them took the practical exam which is approved by the Department of Education and Science. About 60 per cent of them are girls. Of the 94 finalists assembled in London last Friday, competing for the top prize of a trip to look at business and industry in North America, the girls accounted for 20. There are six such awards: the girls won them all.

"There is no obvious explanation for this. It may be the wave of the future. Lady Howe, wife of the Foreign Secretary and long-time campaigner for equality of opportunity, gave the prizes and was obviously delighted at the results.

By no means all the participants want to go on to found their own businesses. Some of them are going into the professions. What they all get out of it, however, is a feeling for how business works. That is a great cultural change.

Young Enterprise is still run on a shoestring. It could do with a bit more financial support as well as a few more advisers from industry who would give a couple of hours a week helping the young companies get off the ground. The latter applies especially to London. At present, it is the regions which are making the running. Blue Arrow and the Midland Bank are among the companies most actively helping.

Blind spot. Sign in a New York optician's window: "IF YOU CAN'T SEE WHAT YOU WANT, YOU'VE COME TO THE RIGHT PLACE."

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**OBITUARY**

**Ayatollah Khomeini: Islamic revolutionary**

**S**ayyid Ruhollah Mousavi Khomeini, the Iranian leader who died on Saturday, was until 1978 a little-known cleric living in exile in Iraq. In October of that year, at the age of 76, he resettled just outside Paris and began to bring Iran's Islamic revolution to a climax.

From his base in Neauphle-le-Château, he gained worldwide public attention, led the groundwork for a revolutionary government and through dissemination of his speeches within Iran swiftly consolidated his position as leader of the opposition to the tottering regime of Shah Reza Pahlavi.

His return to Iran in February 1979 — two weeks after the Shah's humiliating departure — was triumphant. Since then he has been the towering figure of the revolution, revered by his followers and reviled among his opponents. While he has often seemed removed from day-to-day affairs, his personal charisma and power, as manifested by the dark turban, frowning eyebrows and full beard — have remained unmistakable.

Yet Khomeini's legacy is patchy and incomplete. He succeeded in shaking up Iran's foreign alliances, and in his efforts to create a political model worthy of emulation abroad or to spread the revolution to other countries were conspicuous by their failure. At home, he experienced constant difficulty in translating the revolution into a viable and consistent government programme.

By the time of his death, Iran's economy was in desperate straits, its armed forces severely weakened, its people exhausted and its political future more uncertain than at any time since the fall of the Shah.

rioting and bloody clashes between the Shah's forces and the opposition. Khomeini was released 10 months later. He pursued his political activities, calling for a boycott of the elections the Shah had called for October 1964. The confrontation came to a head in the second half of that year, when Khomeini led protests against a law giving American military personnel in Iran full diplomatic immunity. He was arrested again and deported to Turkey, whence he moved to the Shia holy city of Najaf in Iraq in October 1965.

So began 14 years of exile. In Najaf, Khomeini devoted himself to teaching, writing and issuing public declarations. His activities consolidated his role as leader of Iran's religious community, and won him further respect as the Shah's most outspoken critic. The period of exile served to crystallise Khomeini's ideas on government at a time when severe economic and social dislocation was creating a radicalised political climate within Iran. In a series of lectures in Najaf in early 1970, the Ayatollah broadened his attacks beyond the person of the Shah to the institution of monarchy itself, and called for the overthrow of the Iranian regime and its replacement with an Islamic state ruled

**At Khomeini's death, Iran's economy was in desperate straits, its armed forces weakened, its people exhausted**

either collectively by the religious leadership or by a single outstanding expert on divine law.

When serious protests against the Shah erupted in January 1978, Khomeini acted swiftly to maintain its momentum and channel protests towards the goal of establishing an Islamic Republic. His move to Paris the following October, after Iraq asked him to leave, marked the decisive stage in the revolutionary movement and in Khomeini's emergence at its head, operating through a well-organised opposition movement within Iran.

The Shah came under relentless mounting pressure, and left the country on January 16 1979. On February 1, Khomeini returned — on a specially-chartered jumbo jet packed with pressmen — to a tumultuous welcome. Eleven days later, after bitter street fighting in Tehran, the vestiges

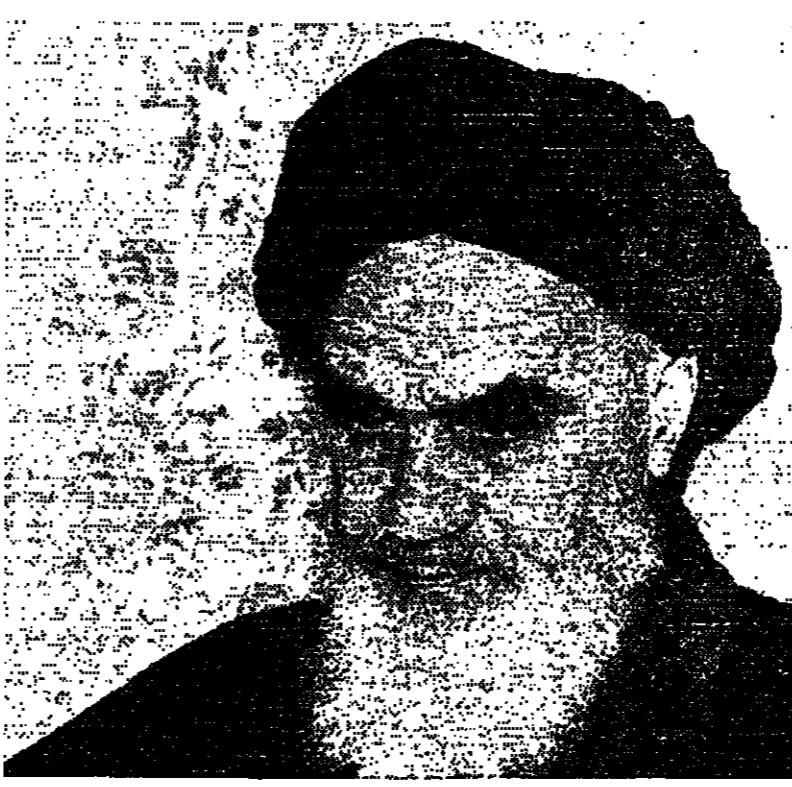
of monarchy finally collapsed, leaving Khomeini's appointees, a 72-year-old moderate nationalist named Mehdi Bazargan, at the head of the first Islamic Government.

Bazargan's eight-month premiership was marked by increasing differences between the diverse groups which had combined to make the revolution a success, the moderates and radicals and secular and clerical forces. Khomeini, in a pattern which was to become characteristic of his leadership, did not decisively take sides in the power struggle, preferring to keep his sails trimmed to the prevailing political winds.

The struggle for the soul of the revolution came to a head in November when a group of young militants calling themselves "students following the Imam's line" occupied the US embassy in Tehran and held its staff hostage. They demanded that the Shah, who had been allowed to enter the US for medical treatment, be extradited to Iran. Khomeini refused to condemn the students' action and endorsed the demand for the Shah's extradition. On November 6, the Bazargan Government resigned.

The revolution now entered a new phase as Iran succumbed to the anti-American feeling. The power of the clergy was consolidated when the constitution of the Islamic Republic, bestowing sweeping powers on Khomeini, was adopted in a referendum in early December 1979.

The first President of the Islamic Republic, Abolhasan Bani-Sadr, also found his power undermined by a conspicuous lack of support from Khomeini and by the growth of an alternative power centre, the newly formed Islamic Republic Party. That September saw the beginning of the most testing time for the revolution when Iraqi forces pushed across Iran's southern border with the aim of toppling the regime. The expected collapse did not happen, and Iranian forces were able to bring the Iraqis to a halt. But at the same time, internal disunity in Iran was reaching a scale close to civil war. It came to a head in the summer of 1981. Bani-Sadr was dismissed, and the leftist People's Mujahedin Organisation planted bombs which killed more than 70 senior government and party officials. There followed a re-energised campaign of repression against opposition forces. While the regime ruthlessly consolidated its position at home, it was also turning the tables on the battlefield against Iraq. In 1982, after a series of offensives costing horrific numbers of lives, Iranian forces finally ejected Iraqi troops from their



territory. And in July, Khomeini made the fateful decision to press on and attempt to topple his opponent President Saddam Hussein. That choice cast the die for the next six years of the revolution, which were mainly characterised by stalemate on the war front and political deadlock at home. After the tumult of the early years, the government entered a period of greater stability. Khomeini continued to set the broad lines of policy, but day-to-day control was exercised by a triumvirate consisting of the Prime Minister, Mir Hussein Mousavi, the President, Ali Khamenei and the increasingly powerful parliament speaker, Ali Akbar Hashemi Rafsanjani. The relative tranquillity on the surface, however, could not disguise deep-seated disagreements within the leadership about the policies of the Islamic Republic. As always, Khomeini himself floated above the fray, intervening occasionally on one side or the other but never coming down decisively on either. The one constant appeared to be his refusal to compromise over the war. In 1983, however, Tehran was forced to the failure of its war effort and to the perils of a mounting confrontation with the US. On July 18 came the greatest reversal of Khomeini's career: the decision to accept a 12-month-old call from the United Nations Security Council for a ceasefire. It was a decision which Khomeini, by now reported to be seriously ill with liver cancer, was persuaded most reluctantly to accept; in an emotional speech that week, he acknowledged that it marked a disavowal of much that he had fought for and likened the move to "taking poison". With the end of the war, his most

cherished dream shattered, Khomeini appeared to acquiesce in Rafsanjani's acquisition of control, and his reduction of Iran's foreign policy into more moderate channels. But any hopes in the West that the revolution had melted away by the time of its 10th anniversary in February 1989 were rudely shattered by Khomeini's decree in the same month that Mr Salman Rushdie, the British writer, should be executed for blasphemy in his novel *The Satanic Verses*. The proclamation provoked outrage abroad and further political turmoil at home.

Not long afterwards, Khomeini sacrificed Ayatollah Hussein Ali Montazeri, his designated heir and one of his oldest and most loyal pupils. Montazeri was obliged to withdraw from the succession because of his outspoken speeches criticising the excesses of the Government, particularly the wave of executions which followed the Gulf war ceasefire. Montazeri's resignation took place just eight weeks before an announcement that Khomeini had undergone surgery to stop internal bleeding. Khomeini, who also suffered from heart problems, died this weekend. In retrospect, Khomeini's main problem in presiding over the Iranian revolution may have been his age: to set out to create an entirely new system of government at the age of 78 would be a tall order in any circumstances. His success lay in his charisma and a shrewd political brain, which helped him to hold the core of the revolution together through 10 extremely difficult years; his failure in the absolute, unbending nature of his personality. What had been his greatest strength during the years of opposition became his greatest weakness in government.

**LOMBARD**

**Monetarism never found**

By Samuel Brittan

**T**IM CONGDON deserves credit for spotting the present UK inflationary boom long before most others, at least partly for the right reasons. The difficulty of presenting him with his Oscar is that he insists on using the award ceremony to promulgate his general system, which is more dubious. In his *Monetarism* (Centre for Policy Studies, 25.50) Congdon is, in turn, both acute and infuriating. For instance he sneeringly remarks on page 51 that his arguments of the last few paragraphs have even been "quite difficult" (they haven't) and that that accounts for my preference for the simplicities of an EMS target. (It doesn't).

Nevertheless his two main strictures on the Treasury are justified. First there has been the regression away from rules and back towards forecasts in which money and credit are given a very subordinate role. Although Nigel Lawson has sometimes upset the Treasury — and even more the Commons Treasury Committee — by scoring at the official forecasts, his real mistake has been not putting them out to grass — or competitive tender.

Second, there has been the adoption of M0 as the only monetary target to supplement the forecasts. M0 consists of notes and coins in circulation and of the very tiny amount of bankers' balances at the Bank of England. Even poor private individuals normally adjust cash to spending — for it is easy to deposit and withdraw cash from banking institutions. It is this very facility which explains the closeness of the relationship between M0 and the nominal national income. Its economic demonstration was "no surprise and uninteresting".

Even as a signal of existing inflation M0 is deficient as it fails to pick up rises in the price of assets such as shares, land or houses, which are never exchanged for coin, but which clearly affect spending. Nor does it reflect inflationary pressures diverted into imports.

Congdon correctly observes that broad money is basically driven by credit — bank credit for M3, and building society loans as well for the newer and

broader aggregate M4. He is not clear on whether it is the growth of credit itself which drives inflation, or whether it is the consequences of that credit for the money supply that matters. (Those of us who do not pretend to certainty may say that both play a role.) Congdon predicts or hopes that his paper will be dismissed as "extreme monetarist." No such luck. The control of the broad money supply by means of the credit counterparty (that is bank lending and the Budget deficit) in the early Thatcher years — which he wishes to restore — was dismissed by many "hardline monetarists" as confusing money with credit. For that very reason, Milton Friedman washed his hands of it.

The empirical argument against going back to automatic reliance on broad monetary aggregates is that M3 gave hopelessly misleading signals in 1979-82, when it led to record increases in base rates on the eve of the sharpest-ever post-war recession, and indeed gave monetary aggregates a bad name. Congdon is not convincing that such errors can readily be avoided in the future.

The correct conclusion is surely that quoted from Charles Goodhart: that the Government was equally wrong to regard broad money as an exact determinant of national income in its early years and in its abrupt change to its later view that it had no effect at all.

Careful readers will notice that Congdon does not share the view of critics inside 10 Downing Street that the root of current UK inflation was the shadowing of the D-Mark in 1987. On the contrary, the gravest mistakes were made in 1985-86 when sterling was allowed to drop from over DM4 to below DM3. If sterling had been stabilised at a higher level, this would itself have exercised a counter-inflationary influence directly. In addition the need to maintain the higher sterling rate would have made domestic policy more cautious and inhibited the growth of credit and broad money without the need for a dogmatic view on which domestic aggregate to target and by how much.

**LETTERS**

**PEG for the CAP**

From Sir Michael Franklin. Sir, Professor David Harvey's scheme for paying farmers income aids based on past output, the Producer Entitlement Guarantee ("A PEG for the CAP," May 25), is ingenious. It has the great merit of separating the support a farmer gets from the Government from the amount he produces. But it is a scheme unlikely to commend itself to the European Community.

Replacing all the supports of the common agricultural policy (CAP) with direct payments to farmers would mean an enormous transfer of costs from consumer to taxpayer. Consumer might be pleased, but consumers — at any rate, elsewhere in Europe — are not particularly bothered about the (relatively small) farm support addition to their food bill, whereas governments want to avoid the budgetary cost of the CAP going up.

While PEG avoids the rigidities of a quota scheme, it does not avoid the administrative complications, and hence the scope for fraud: deciding who is entitled to what payment. And differentiating according to farm size would discriminate badly against the UK, with its larger farms.

Are direct payments unrelated to farmers' output really necessary? Indeed, are they sustainable, when society is calling on farmers to do things — notably to preserve the environment and improve access to the countryside — for which society might reasonably be expected to pay? Both the Countryside Commission and the Country Landowners have recently put forward ideas (FT, May 17) for extending much more widely the concept of paying for environmentally friendly farming. Substituting schemes of this kind for direct price support would have to be negotiated in Brussels (not easy).

But in principle it must be better to see the farmers' support payments to what the public wants rather than ask the public to accept straight income aids for which they might see little justification. I believe farmers would be happier with such an approach, too. Michael Franklin, 15 Colley Lane, Barnet, Hertfordshire

**Impact of commission on endowment mortgages**

From Mr Hugh Scarfield. Sir, Your leader ("Capture of a regulator," May 31) overstates the average amount which commission removes from every £1,000 of premiums on an endowment mortgage — by more than three times. This is a serious distortion.

A policyholder with a 25-year endowment mortgage maturing in five years would receive a yield, ignoring tax relief, of 12 per cent on its premiums. This is with no further tax due, and after commission, expenses and death cover have all been paid for. Given the degree of security, this represents a very satisfactory return. Had there been no commissions the yield would have been increased by less than one half of 1 per cent.

Life insurance companies have been operating within a maximum commission agreement. This held commission rates down. The Government was warned that without "this cosy agreement," as you call it, commission levels would go up — thereby costing the consumer more. The Department of Trade and Industry ruled that "this cosy agreement" must cease, so no one should now be surprised that commission levels are going up. But, given the limited impact that commission levels on the overall results of mortgage endowments still represent very good value. Hugh Scarfield, Norwich Union

From Mr M.D. Ross. Sir, I feel that your editorial of May 31 gets it wrong by concentrating on only one aspect rather than the whole. There is, in reality, more to selling life insurance and financial advice than just the actual time involved in the selling process.

Equally, the mortgage market does not represent the entire market spectrum covered. The responsibilities and financial burdens connected with the Financial Services Act have increased costs. Is it the cash amount or its relationship to the value of the transaction as a whole which is more important? Should an element of the expenses of one distribution channel be highlighted in relation to another in a manner which could mislead? You appear to believe that it is better to put one part of the picture out of the context of the whole. I do not support that view.

The average endowment assurance premium is more likely to be of the order of between £500 and £800 a year. So your commission is overstated — hence unfair, on the overall impression given. Interestingly, at current prices, a reader going it alone (by reading the Financial Times for advice) would pay out £702 over a five-year period. For an average annual investment of £500 this represents something approaching

30 per cent of the amount available for investment. One might expect a more balanced assessment for that service as a charge on the funds under management: a deduction from the investment return earned. This would be little different from unit trusts — and bank and building society accounts, which do have expenses and charge for their services.

What is different is the distribution of costs. The front-end aspect is already dealt with by the disclosure of early cash-in values given to potential customers. The only real alternative to saving is not to save. Many people do need to be sold the benefits of medium- to long-term saving via an efficient mechanism such as life insurance and pensions products rather than, for example, a building society return. The selling process does involve expense. So does buying the Financial Times. But the process, like that for other products, is not always successful. Ultimately all costs have to be met out of actual sales — a point often overlooked. M.D. Ross, Scottish Widows' Fund

**Myth grows from myth**

From Mr Anthony Rosen. Sir, Mr George McRobie is correct to say that "organic food is different" (Letters, May 27). But just because a food is "organic" or "natural" it is not necessarily better — or safer. (For example, comfrey, used in many herbal preparations, contains many toxic pyrrolizidine alkaloids, known to have caused cancers of liver and bladder in animals, and illness and death in man.)

The organic/non-organic debate is out of proportion. Those who believe in the mystical properties of organic food probably account for less than 3 per cent of the population. Similarly, much less than 1 per cent of Britain's farmland is devoted to organic farming, whatever definition of organic we use. It would be more sensible if

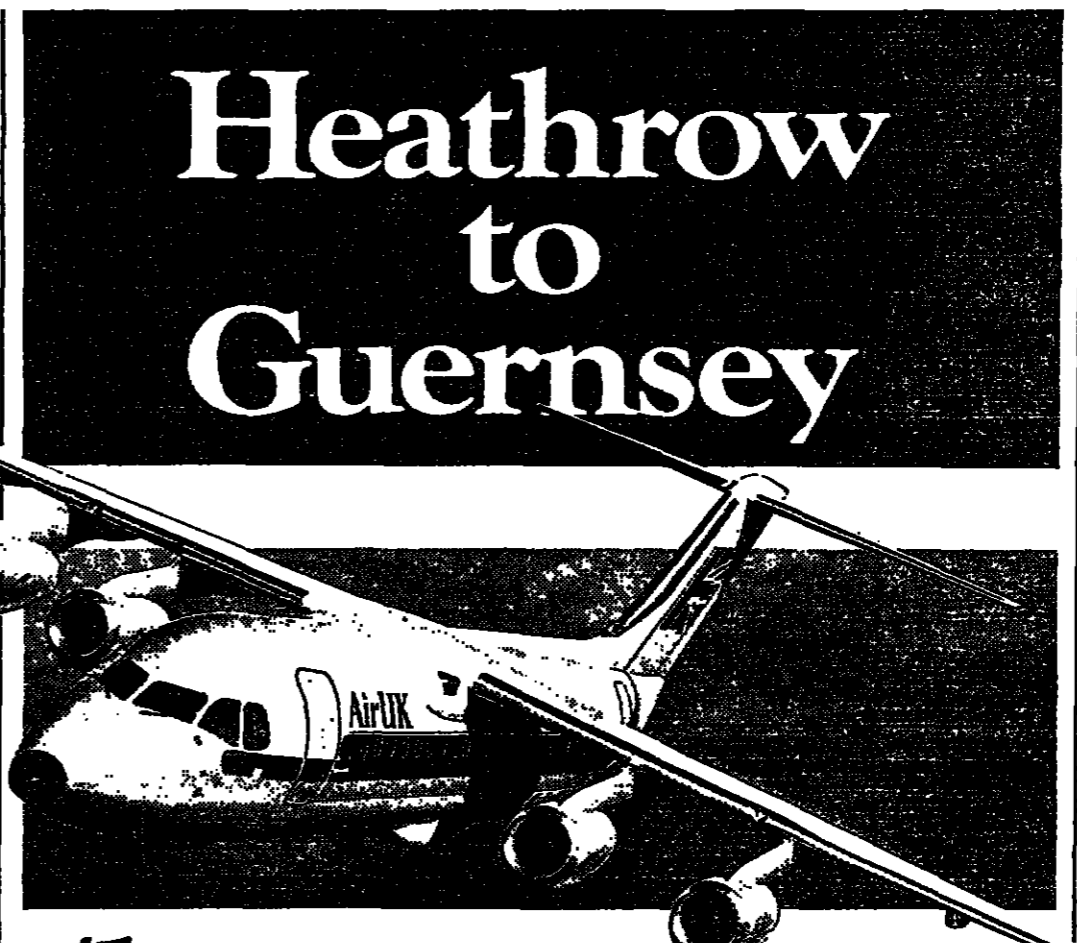
organic farmers went on producing their wonderful foods and kept quiet. If enough publicity is given to the supposed benefits of organic farming, large scale inorganic producers may be beguiled into believing it, and take up organic growing. One pound too much of organic food for the very limited market to bear, and the price premium will disappear. All the small organic growers will go bust.

At present they can choose between a difficult (but perhaps economic), small (relatively unknown) market, or a non-viable, non-economic large one. To believe that more than a handful of people are prepared to pay for the myths of magic is itself a myth. Anthony Rosen, Farnley Farming, Fitzwill, Elstead, Surrey

**Exit here**

From Mr James Lewis. Sir, Mr Mandelberg (Letters, June 1) writes that many voted in the original referendum "for membership of the EC precisely on the grounds Mr Heath now decries: a free trade area, pure and simple."

I stood as an Independent in the February 1974 general election on the issue of sovereignty, and I spoke for the Get Britain Out Movement in the 1975 referendum campaign. Can Mr Mandelberg not grasp the simple tenet that free trade areas are created comparatively simply by mechanisms such as Efta, the Gatt, the Kennedy Round, and so on? Eight million voted to extricate the UK in 1975: not a majority, but far more than have been represented in Parliament. James Lewis, 110 Nelson House, Dolphin Square, SW1



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# FINANCIAL TIMES

Monday June 5 1989

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## Janet Bush on Wall Street

### Hedging proves a good bet

TO TALK to individual investors is to become increasingly aware of how disenchanted many of them are with the big brokers' services. It is no wonder that they are turning to consultants who advise them on alternative money managers with whom to invest.

Bruce Hauptman left a career working for large brokerage because he felt that there was a clear conflict of interest between the drive to earn commission and the clients' needs. He set up his own company, B. Hauptman & Associates of Fairfield, Iowa, which has a database of more than 800 investment managers and has more than 50 high net worth clients who have assets under management of \$150m.

Mr Hauptman believes he has found a distinctive niche: there are consultants galore for large pension funds, but few for wealthy individuals who want something more than just a mutual fund.

"For these people, so-called 'hedge funds' are an attractive alternative. These funds, structured as private partnerships, have three main characteristics:

First, the money manager acts personally as investor and is paid according to the performance of the fund; if it loses money, so will the manager. This, Mr Hauptman believes, gives the manager the incentive to do well for his clients and cuts out the conflict of interest.

Hedge funds are also more flexible. The fund can short stocks more easily than many pension funds, which are barred either by charter or choice from what they regard as speculative or complex trading strategies.

Third, hedged funds are free to use leverage. Although mutual funds can do practically anything as long as disclosure is adequate, a lot of investors would be deterred by strategies using heavy borrowings to enhance potential gains.

The relative freedom from regulatory bureaucracy and restraints on trading strategies, options and different asset allocation models, has been leading to thumping rates of return.

A study of 63 hedge funds covering 1987 and 1988 shows that the average return of all these funds was 47.7 per cent compared with 22.6 per cent generated by the Standard & Poor's 500 including dividends and a 14.4 per cent average return on 512 equity oriented mutual funds.

One leading manager, using a leveraged option strategy for his own account, made an annualised loss of 3 per cent in 1986 and an astounding 194.7 per cent return in 1987 followed by 157.3 per cent in 1988. Mr Hauptman believes it is ironic that laws such as the Investment Act of 1940, written to protect individual investors, have actually reduced the information available on hedged funds which can offer high returns, but remain the preserve of sophisticated investors.

Under Securities and Exchange Commission guidelines, there can be only 100 partners in each fund and each individual has to demonstrate net worth of at least \$1m.

Mr Hauptman bemoans the fact that the small investor still cannot get his hands on the best returns. That apart, though, who are his favoured managers?

One favourite is Paramount of Stamford, Connecticut, the new institutional arbitrage account of which made an annualised rate of return of 28.92 per cent in its first four months of this year. Paramount's Mr Jack Naidich said that the fund makes money on announced takeover plays, avoiding arbitrage on rumoured bids as "garbage".

Mr Naidich believes investors are turning to funds which use non-traditional equity investment to achieve relatively low volatility and high returns. Using options and futures, it is perfectly possible to hedge an entire market but still capture the gains.

Another is First Security Management of New York which has made a compounded annual rate of return over the last 13 years of 26.1 per cent on its hedge fund compared with 14.4 per cent on the S&P 500.

First Security's Mr Morley Schaja stresses that their investments tend to emphasise small to medium companies with strong free cashflow, companies which the fund tries to get to know well.

Using derivative products, the fund is short of the equity market as a whole but still invested in individual stocks.

## POLISH ELECTIONS

### Survey suggests big Solidarity lead

By Christopher Bobinski in Warsaw

A POLISH Government opinion poll forecast a big lead for Solidarity as Poles flocked to vote yesterday in the freest elections Eastern Europe has seen since the 1940s.

In a preliminary forecast on state television, the poll said the Solidarity-led opposition would win 40 out of 55 seats in the 100-seat Senate (upper house) that were likely to be decided in the day's voting.

Solidarity is expected to lose no more than 20 per cent of its Sejm (lower house) allocation to government backed independents and Solidarity dissidents running against Mr Lech Walesa's candidates.

Solidarity is competing with official candidates for all 100 seats in the Senate and putting up 161 candidates for the 35 per cent of the lower chamber reserved for the movement under its agreement with the authorities.

With polling stations closing at 10pm local time and the first results expected later today, official spokesmen yesterday said the turnout had been high and that 30 per cent of the 37m electorate had voted by noon.

Mr Janusz Onyskiewicz from Solidarity said the day "had gone quietly and well".

In Warsaw, the Polish capital, queues formed at polling stations as people inside the booths struggled with a complex voting procedure which required people to cross rows of names off multiple ballot papers. Solidarity supporters sat outside the station ready to offer advice to those who were still unclear about how to vote.

The authorities are heading for a fall, with many Poles both in the town and the country determined to vote against official candidates, thus possibly denying them 50 per cent of the ballot vote needed to get into Parliament.

Successful candidates need a



Solidarity leader Lech Walesa casts his vote yesterday in Gdansk. He urged voters "don't let emotions carry you away."

50 per cent minimum of the valid vote on the first ballot, otherwise they have to compete in a second round of voting on June 18.

John Lloyd writes from Gdansk: Voting in Solidarity's birthplace, was heavy yesterday, with Solidarity activists at the polling stations reporting voting for their candidates as high as 90 per cent.

Speaking after a Mass in St Brygada's church, near the shipyard, Mr Walesa called on

all Poles to "show the world that we are responsible - don't let emotions carry you away."

In an interview given to state television from the garden of his home on Saturday night, Mr Walesa advised his supporters to vote for all but one of the 35 names on the "national list" - the group of Government and party leaders standing in a special section without opposition but, under the terms of the Round Table accord, requiring 50 per cent of the votes cast.

This contradicts advice given by many of his followers in the regions. In the town of Gdansk, for example, 200 kilometres north of Warsaw, Solidarity activists were distributing cards to voters instructing them to cross off all 35 names.

Government and party leaders fear that the activists will carry more influence. In an interview last week, Mr Jozef Cyrtek, second in the party hierarchy to General Jaruzelski, said that if the national list failed to secure the required 50 per cent, it would result in a "political and constitutional impasse".

In an national address on Friday, General Jaruzelski called for a "broad, post-election coalition", including Solidarity representatives, to push through the reforms and consolidate democracy.

Capitalism at Gdansk, Page 6

## Opec ministers edge towards agreement on raising output

By Steven Butler in Vienna

OIL ministers of the Organisation of Petroleum Exporting Countries yesterday appeared to be moving toward agreement on raising the organisation's overall production ceiling by at least 1m barrels a day (b/d).

Such an accord, which would probably involve raising the permitted output ceilings of Kuwait and the United Arab Emirates, is thought likely to buoy oil markets, which have been concerned that ministers may fail to agree at the Vienna meeting. The markets fear that lack of a new production agreement could lead to a further deterioration in production discipline by the organisation's members currently working under a notional 18.5m b/d ceiling - possibly leading to a glut of oil on markets.

Talks continued in Vienna yesterday before the official opening of the semi-annual ministerial conference today. The meeting is expected to go ahead in spite of the death of Ayatollah Khomeini, the Iranian spiritual leader.

Mr Gholamreza Aghazadeh, Iran's oil minister, said his government had instructed him to stay in Vienna. Mr Aghazadeh said he expected demand for Opec oil to rise by at least 1m b/d in the second half of the year, but that the question of how to allocate any increased production among Opec members had not been resolved.

However, he hinted at the possibility of special quota allocations to Kuwait and the UAE, as both have demanded.

## Brussels to seek Italian steel plant closure

By William Dawkins in Brussels

THE European Commission will this week call on Italy to close its Bagnoli steel smelter near Naples by next March if Rome wants EC clearance to bail out the rest of its state-owned steel industry.

Italy had promised to close the 2.7m-tonne furnace by the end of this month, the main condition for EC clearance to proceed with the L5,198m (\$3.8bn) rescue plan for Iri, its state-owned steel group. It later asked for a one-year reprieve when the prospect of the loss of 2,000 jobs sparked off riots in Naples.

Sir Leon Brittan, Commissioner for competition policy, will ask his colleagues this week to sanction only a nine-month delay. That is on condition that the decision to shut Bagnoli is final, rather than renegotiable under certain conditions, as Italy had asked. Unanimous approval is needed for the plan, due for discussion at a meeting of EC Industry Ministers on June 21.

Italian officials had urged Brussels to delay the proposals because of the collapse of their Government made it hard to take a position on such a sensitive topic. But the Commission wants Bagnoli's fate decided before the original closure deadline of June 30.

It is unclear whether the rescue terms will win the support of West Germany, which feels Italian steel should be forced to restructure quickly. The proposal is designed to steer business firms away from longer delays and West German toughness. It would allow Italy to pay two-thirds of the L5,198m aid after accepting the package, with the rest after Bagnoli's closure.

The controversy is expected to spill over into the European Parliament election campaign, which has just opened, and may well play into the hands of the extreme right-wing National Front party, headed by Mr Jean-Marie Le Pen.

Opposition politicians have accused the government of deliberately timing the new law to maximise the embarrassment of the conservative and Gaullist parties in the run-up to the June 18 poll.

The new law makes no change in the severity of France's immigration policy. But it eases the rules and procedures which govern the treatment of foreigners resident in France.

It replaces measures introduced three years ago which gave the authorities a virtually free hand to expel any unwelcome foreigner.

## France eases immigrant laws

By Ian Davidson in Paris

THE French Socialist Government has eased the rules governing foreigners resident in France, in a law steam-rolled through the National Assembly early yesterday.

The conservative opposition parties, having failed to block the new law through six days of filibuster and more than 250 delaying amendments, have tabled a censure motion which is likely to be debated this week.

This will be the second conservative censure motion in three weeks; a motion attacking the government's European policy was defeated on May 16. The new censure motion claims that parts of the new law are unconstitutional, and argues that it will have the effect of provoking a new wave of clandestine immigration. The motion is most unlikely to secure a majority, since the

Communists are expected to abstain as they did yesterday. Still, the censure debate will be an important test of the personal resilience of Mr Jacques Chirac, leader of the RPR Gaullist party.

Mr Chirac has been virtually silent in public since his defeat in the Presidential election a year ago; but he has now apparently decided to take his party in hand again, and to lead it in this week's censure debate.

Debate over the new law has provoked the first really intense political clash between government and opposition since the Socialists returned to power a year ago. Breaking with traditional political etiquette, the opposition has used the debate as a platform for personal attacks on President Francois Mitterrand, who demanded the new law.

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## THE FINANCIAL COLUMN

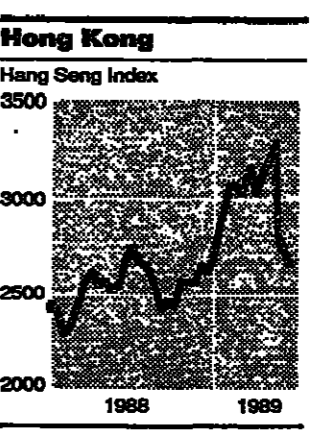
### Heading for a safe haven

The stock markets of Japan and France reached new peaks last week and the US, Canadian, West German and Swiss markets ended at their year's high. However, the bullishness which has swept most equity markets to levels that were unimagined at the start of the year could be tested by the weekend's events. It will be many months before the full implications of the takeover in China and the death of Ayatollah Khomeini are known, but a further element of uncertainty has been added to financial markets which already seemed to have lost touch with underlying economic fundamentals.

Hong Kong is the most obviously vulnerable financial centre. Its stock market had fallen by close to a fifth in the fortnight leading up to this weekend, and property values will now accelerate following the assumption of power by the Communist Party in Hong Kong.

In an national address on Friday, General Jaruzelski called for a "broad, post-election coalition", including Solidarity representatives, to push through the reforms and consolidate democracy.

Capitalism at Gdansk, Page 6



sponsors still seem to be having some difficulty rounding up 40 wealthy investors prepared to chip in \$25m apiece to provide the minimum \$1bn that will enable Mr Murdoch to play the market. Given that MPT's first acquisition will be News Corp's own publishing assets, which could easily cost \$1.2bn, it does not leave it a tremendous amount of financial flexibility to pursue the acquisitions which will provide the compound rate of return in excess of 25 per cent which is targeted for MPT's ten year life.

In terms of News Corp's immediate debt reduction strategy, the need for MPT is less pressing than it was a few months ago. US interest rates are now leading lower rather than higher, and with the sale of its Travel Information Group to Reed, News Corp has raised more than \$150m since their impetus to both the US dollar and Wall Street. However, a further sharp appreciation in the dollar is storing up problems which will eventually come back to haunt the financial markets.

Media Partners

The son of News Corporation, or Media Partners International (MPI) to give it its correct name, is having a difficult time. And while it may not be stillborn, it may not emerge strong enough to create the sort of financial terror in the global media and communications industry intended by its prod father, Mr Rupert Murdoch. Three months after News Corp said it was seeking to raise \$1.5bn of equity, and probably twice as much again in debt, there is increasing talk that the launch of MPI — the primary vehicle for Mr Murdoch's future acquisitions — may have to be delayed.

Although the amount expected to be raised appears to have been scaled back, MPT's

immediate debt reduction strategy, the need for MPT is less pressing than it was a few months ago. US interest rates are now leading lower rather than higher, and with the sale of its Travel Information Group to Reed, News Corp has raised more than \$150m since their impetus to both the US dollar and Wall Street. However, a further sharp appreciation in the dollar is storing up problems which will eventually come back to haunt the financial markets.

However, MPI remains the key to any restructuring of News Corporation and is one of the reasons why News Corp's share price has fallen so strongly recently. If MPI can live up to its heavy objectives, News Corp's own shareholders should benefit handsomely. Not only should News Corp show a profit on the sale of its publishing business to MPI, but the reduction in future gearing levels should improve both the level and quality of its own profits. Meanwhile, News Corp will collect a hefty annual advisory fee, and lucrative licensing payments — provided MPI achieves a 20 per cent per annum — mean that it will continue to enjoy the benefits of controlling MPI while sharing in far less of the financial risk than in the past.

Mr Murdoch's financial and entrepreneurial flair is not in doubt. But it is hard to find a compelling case for investing in what the Americans call a blind trust. The shares will not be easily tradeable, and Mr Murdoch's recent investment record, particularly in TV, has not been an overwhelming success. What, for example, is to prevent News Corp selling its loss-making Sky TV to MPT?

In the City of London at least, there are still painful memories of Slater Walker's highly geared Dual Trust — nicknamed the Dunstirn trust — set up to invest in Slater's own satellites a couple of years before the stock market collapse. Like Mr Murdoch, Mr Slater once had a name which was near magic in stock market circles. However, the biggest shortcoming with MPI is that Mr Murdoch's family fortune is invested in News Corporation, and as long as it remains this way, anyone wanting to back Mr Murdoch would be best advised to put their money where he does.

Brierley

The fact that Sir Ron Brierley has raised some \$250m from the UK portfolio since January might suggest that he expects New Zealand's recession to start exporting itself round the world in the near future. Last time the markets delivered cheap buying opportunities, Sir Ron was too highly geared to make much of them; he clearly does not wish to make the same mistake twice.

Nonetheless, the rationale behind the major sales and purchases of the past few months seems to have been less visionary than purely pragmatic: of the 80-odd holdings in the portfolio originally, the majority were mere scraps of stakes which did not add up to a coherent whole. Others like Ultrama and English China Clays — were large enough to matter, but as bid targets, they were probably too large for comfort. And with Sir Ron's New Zealand operating companies under pressure from the aforesaid recession, any UK assets which did not pull their weight simply had to go.

But if Sir Ron has been raising money with one hand, he has been spending it with the other on Mount Charlotte and Vickers, and last month on Union Discount, which had the merit of being cheap at the price.

## A city mourns its dead as the tanks take control

Continued from Page 1

black writing on white cloth, stood in the path of a convoy of about 50 tanks and armoured personnel carriers. About three blocks from Tiananmen, a line of 10 buses, some alight, blocked the road. Protesters threw stones at the vehicles. In reply, soldiers fired indiscriminately into the streets.

Groups of residents gathered in the labyrinthine backstreets, discussing the massacre of the night before in voices hushed by disbelief and fear.

It is said that during one of their disputes, Zhao Ziyang, the party chief, told Deng Xiaoping, that he, Zhao, had China's billion people behind him. Deng said that did not matter; he had the People's Liberation Army.

A young man who had come to the front line to look at the tanks in the square said the killing was a tragedy — perhaps it is the worst tragedy for the Chinese people." The Communist Party maintains that the "party commands the gun." Another young man said

wryly "this is politics in command."

He described how two of his friends had been shot, one killed and the other seriously wounded, in the battles of the night before.

In the small huddles in the hutongs — the back alleys — people were trying to make sense of the inexplicable. Shoppers were closing and their windows boarded in the main business district. Smoke hung in the air throughout the city yesterday.

The plunge into chaos has been too shocking for anyone in the capital to comprehend. Peking could not come terms with itself as a city under siege. For the past few weeks, Tiananmen square has been a mass of red flags and often humorous banners fluttering in the breeze. The Peking people, buoyed by the strength of numbers' backing their democracy demands in the streets, had been unusually optimistic. Yesterday, that optimism was turned into shock and disbelief.

The gas pipeline west of Chelyabinsk is the main line carrying natural gas from the Tyumen fields, the largest single source in the Soviet Union, and links with two others.

The accident occurred just before midnight on Saturday night, on the main trans-Siberian railway line between the cities of Ufa and Chelyabinsk, near the town of Asha.

Tass said that "a tragic

## Rail blast kills hundreds

Continued from Page 1

fire, Mr Cherepanov said. "At least half the people died. That means 650, maybe more."

The first pictures on Soviet television last night showed horribly burned victims arriving at Chelyabinsk airport, their faces burned black and limbs crudely bandaged.

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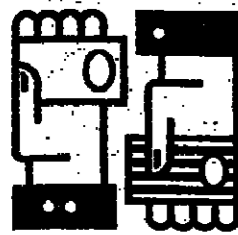
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## WORLD WEATHER

Area	C	F	Area	C	F	Area	C	F
Abaco	25	77	Darmstadt	8	47	Shanghai	24	75
Adana	21	70	Dauhin	14	57	Shenyang	24	75
Ahmedabad	31	88	Delhi	30	86	Singapore	28	82
Algiers	24	75	Dhaka	29	84	Singapore	28	82
Ankara	18	64	Doha	31	88	Singapore	28	82
Antwerp	13	55	Durham	13	55	Singapore	28	82
Aqaba	25	77	Durham	13	55	Singapore	28	82
Asmara	24	75	Durham	13	55	Singapore	28	82
Athens	23	73	Durham	13	55	Singapore	28	82
Auckland	14	57	Durham	13	55	Singapore	28	82
Bahia	24	75	Durham	13	55	Singapore	28	82
Bahrain	31	88	Durham	13	55	Singapore	28	82
Bangkok	29	84	Durham	13	55	Singapore	28	82
Batavia	28	82	Durham	13	55	Singapore	28	82
Bombay	31	88	Durham	13	55	Singapore	28	82
Buenos Aires	21	70	Durham	1				

# FINANCIAL TIMES SURVEY



The venture capital industry has been investing record amounts throughout Europe.

Nevertheless, prospects for the enterprise culture in the 1990s will depend on how well governments fine-tune their policies and upon the business acumen of thousands of individual entrepreneurs, as Charles Batchelor explains here.

## A decade of enterprise

FROM some unpromising beginnings, the 1980s have turned out to be the decade of enterprise. In Britain, as in most of the developed countries of the world, the evidence of a growth of the new enterprise culture has become steadily more apparent.

The numbers of new business start-ups in the UK are setting new records. No fewer than 1,400 new companies are now registering for Value Added Tax each month, more than twice the average level recorded during the 1980s as a whole.

The venture capital industry - which provides equity capital to fast-growth companies - has been investing record amounts throughout Europe. Much of this money is going to back the growing numbers of big company managers who want to mount buy-outs and buy-ins. So numerous are these refugees from the larger corporations that there is an acute shortage of good target companies.

And after a decade during

which most books published about the small firm were turned out to be the decade of enterprise, in Britain, as in most of the developed countries of the world, the evidence of a growth of the new enterprise culture has become steadily more apparent.

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jobs and 20 per cent of business turnover. Eighteen years after the publication of the Bolton Committee Report, which recommended more help for the small business, the importance of the smaller company is now fully appreciated. So much so, in fact, that there are now clear indications that perceptions of the small business are undergoing a second important shift.

The small business is no longer seen as a separate, clearly identifiable organisation with only limited ambitions. Early enthusiasm for the small firm had threatened to create a ghetto mentality, cutting off these companies from the economic mainstream.

While most small companies will remain small a significant minority will outgrow this label. And even those which do not, usually count large companies among both their customers and their suppliers.

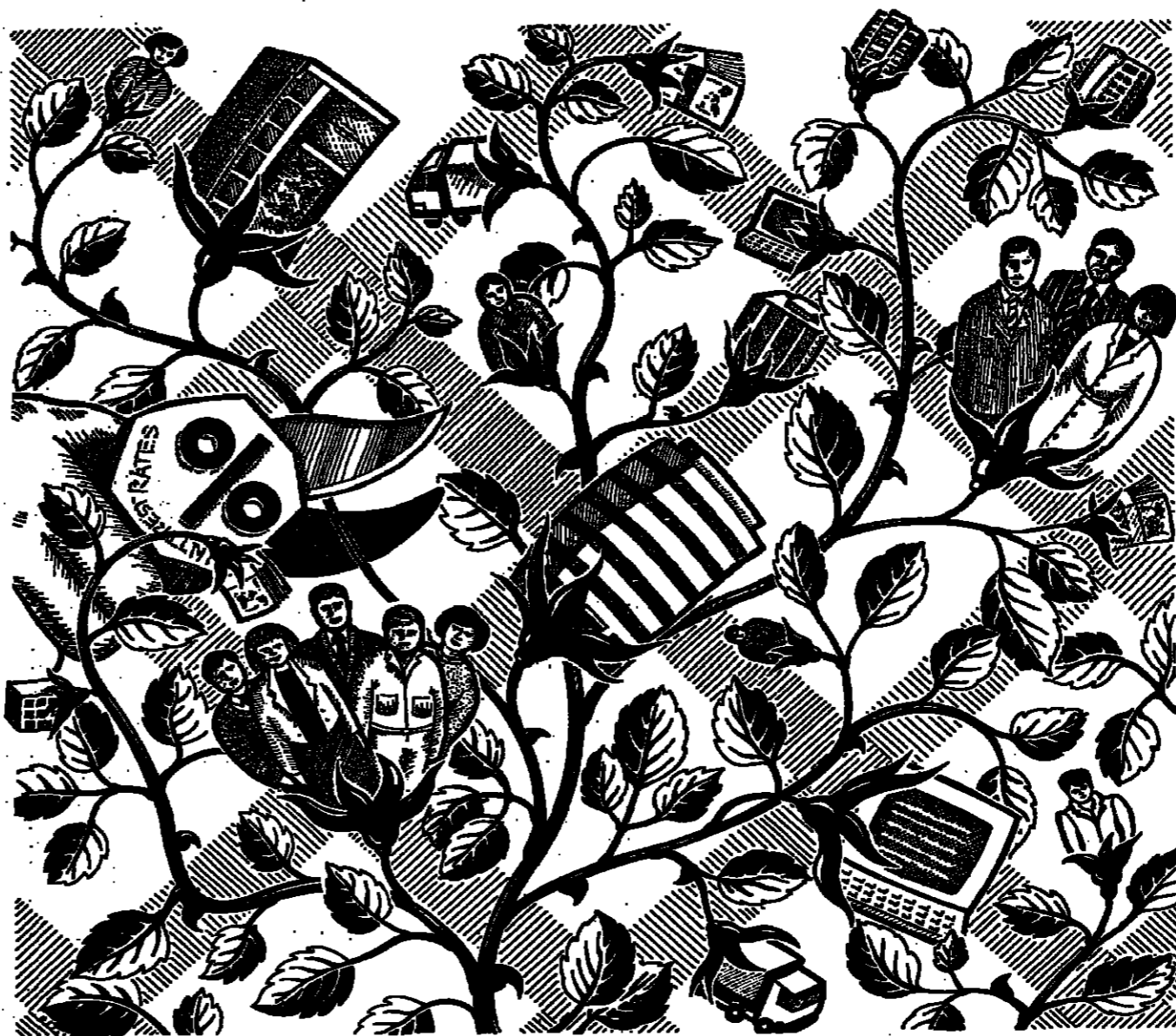
Government policy has moved away from providing specific help for the small company by creating a favourable economic climate for businesses both large and small. The Enterprise Initiative, for example, a £250m three-year programme which provides subsidised consultancy help, is available for companies employing up to 500 people, a definition which excludes only a handful of very large companies.

The message that small firms need no longer be regarded as an endangered species was confirmed by the decision earlier this year to rename the European Commission's Task Force for Small and Medium-Sized Enterprises. It is now called the Directorate General for Enterprise Policy.

This title represents both a promotion for the unit, and, in the view of Mr Alan Mayhew, its head, an attempt to dispel the idea that there is a distinct section of the business community which needs special protection.

For all this enthusiasm for small-scale enterprise, however, the immediate future is clouded by recent sharp increases in interest rates. A Confederation of British Industry report published last month, recorded a sharper decline in small firms' business confidence than at any time over the past 6½ years. Small business owners expect their costs to rise in the near future and both domestic and export demand to decline.

The present high rates of interest have revived long-standing calls for Britain's smaller companies to be given access to cheaper finance. The Union of Independent Companies, one of the small firms' lobby groups, is pressing for the creation of a Business



# Growing Businesses

Development Board. The UIC wants the board to have £1bn of capital to provide subsidised, fixed-rate loans to smaller companies, along the lines of the West German Reconstruction Bank, which provides small firms with cheap loans.

But the small firms sector also has longer-term concerns about its future. The impact of 1992 and the creation of a single barrier-free European market raise important issues which many small and medium-sized businesses are unsure how to address.

Many companies operating in fairly narrow, local markets are taking the view that they will be unaffected by the changes. But the more thoughtful business owners are considering what they need to do to open up new markets in

Europe and to defend those they already have. "Often the single market seems to have little immediate relevance to the small business," said Mr John Parsons, a small firms representative on the British Overseas Trade Board. "But the need for smaller firms to begin preparations now is every bit as urgent. Getting used to the single market will often mean big changes than for larger businesses."

Britain's small business community also faces changes at home in the way training and advice services are provided. The government is setting up Training and Enterprise Councils (TECs), employer-led organisations which are intended to co-ordinate the provision of training schemes on a

local basis. The TECs are intended to work closely with the existing network of more than 300 enterprise agencies. They will also take responsibility, on a local basis, for running the Enterprise Allowance Scheme, which helps the unemployed start in business, and the Small Firms Service, which provides advice and counselling.

The TECs are not specifically aimed at the smaller company though it is these firms, which are less likely to have in-house training departments, which will be most affected by any changes. Small businesses are traditionally reluctant or unable to devote much time to training so one measure of the TEC's success will be their ability to increase the take-up of training courses by the smaller company.

The enterprise agencies, a network of more than 300 advice centres which has been created over the past decade, are also undergoing change. The Government is phasing out its support so the agencies must try to become self-financing.

There are fears that this will force the agencies to abandon their traditional role of advising unemployed people and others on how to start up in business because they cannot recover their costs from these clients. The agencies will inevitably move to helping only those more established businesses which can pay for their services, the pessimists claim.

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- Illustration on this page by David Worth.



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GROWING BUSINESSES 3

EXPANDING ABROAD

Export fears unfounded

YOU CAN easily find the export department in many small companies, according to overseas marketing consultants...

Export documentation appears complex to the company unfamiliar with selling overseas, though it has become somewhat easier since the introduction of the Single Administrative Document in January 1988...

If only more small companies could be persuaded to take up exporting seriously, there would be a large reduction in Britain's trade deficit...

agent, distributor or the customer himself for much of his information. One small Birmingham manufacturer of specialised machine tooling built up a profitable business in France until a dispute arose with its agent in Paris...

Finance, documentation, languages - the list of skills to be mastered does appear formidable. But very few companies will be able to ignore the impact of 1992, even if most of their business at present is with local customers...

Charles Batchelor

MANAGING GROWTH

A fair share of the problems

BRITAIN'S small business renaissance has been reflected in the strong growth in the number of small companies in recent years. Little attention has been paid, however, to a decline in the number of medium-sized businesses...

found they had not grasped the need for the new direction the company was taking, and were dragging their feet. Even more worrying was the gap which had opened up between the firm's three directors and its four general managers...

Senior managers at Rapid Recall were taken on a two-day workshop in what Ashridge calls its "team-working" approach to management. Managers are taught to work more closely not just with each other but with any other person inside or outside their company who can help solve a particular problem...

A major problem facing the growing company which seeks to recruit managers is the lack of an obvious career structure. In compensation, however, the smaller company can offer young managers more responsibility and more direct links with senior management than the large corporation...

Strengthening the management of the growing business frequently means recruiting managers from outside the company. This is not always easy for the smaller company.

Charles Batchelor

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A decade of enterprise

But a more widespread view among the agencies is that by rationalising the network, merging agencies which overlap in the same town, and by allocating specific tasks to certain agencies, they will be able to provide both a cost-effective and more professional service than in the past.

Both were extended last year after passing the scrutiny of by the National Audit Office, which monitors government spending. The Enterprise Allowance Scheme has been criticised for providing only cursory training to those who join it but it has helped a large number of people since it was introduced in 1981 for only a moderate cost. The Loan Guarantee Scheme has had a more chequered history. Many of the early loans were not repaid because the banks had little experience of dealing with this category of customers. Bank managers are still reluctant to lend under the scheme because of the official paperwork involved but the number of guaranteed loans made has increased recently.

GROWING BUSINESSES 4

SUCCESSION ISSUES

# Difficult decisions

MUCH that has been done by governments to aid the growing company has been based on the assumption that, whatever else it may lack, the business has youth and vigour. The reality, though, is that many small companies are run by elderly men whose main preoccupation is how to arrange a transfer of the business to younger management.

For all the growth in interest in secondary stock markets throughout Europe, the number of listed companies is small compared with their private, usually family-owned counterparts. The challenge facing these companies is how to secure their future while at the same time maintaining family control.

Tales of dissolute eldest sons dissipating the family fortune are generally the stuff of fiction, but on a more humdrum level many fathers face difficult decisions about bringing

**Securing the future of many family companies raises complex issues, says**

**Charles Batchelor**

their children into the family firm.

Succession has often been seen as a tax question — though recent British budgets have removed some of the stings of inheritance taxes. But even more important are the management issues involved. How should the new head of the company be selected? Should he (or she) come from the family or from outside?

How should the new man or woman be trained and brought into the company? And how can the interest and loyalty of non-family managers be retained if they know they can never take over the most senior job?

It is questions like these which have been concerning Brian Pearce, now 57, and the third generation of his family to head Pearce Signs, a sign-

making company based in New Cross in south-east London. The company has 740 employees, a turnover of £25m and claims to be the largest sign-maker in Europe.

Mr Pearce is now devoting a great deal of thought to grooming his son, Nicholas, aged 30, for the succession. Mr Pearce insists that it is not automatic that his son will head the company, but he is being given experience on the managerial ladder.

Nicholas first qualified as an accountant, went on to become personal assistant to his father, then spent a period in sales before becoming general manager for the Kent region. His career development has been handed over to Pearce's managing director.

Mr Pearce Sr says that, in terms of working relationships, he has no more to do with his son than he would with anyone else in that position though Nicholas does take part in more company functions than would a non-family manager.

A major problem facing companies such as this is that traditional training methods for managers do not take into account the special problems of the family-run business. The conventional management school approach can provoke conflict once the student returns home.

He would go back, having learned a lot of theory and tell his father he was not running the company properly, says Laurence Handy, MBA programme director at Ashridge Management College. Ashridge has devised a course which, while not expressly designed for the family company manager, does involve the student in a project related to his own family business.

Clive Cutler, aged 43, took the Ashridge course as part of his grooming to become chairman of Pearce & Cutler Group, a Birmingham-based company engaged in glass processing and the manufacture of curtain walling. Despite having qualified as a chartered accountant and spending 20 years with the family company, Mr Cutler says he felt he needed formal management training to head a business with nearly 500

## Group expands into Europe

VIKKI STACE, formerly a marketing and publicity director with a large publishing house, started her own public relations business in London with what she calls a "one woman plus secretary show" in 1985, but her business — the Powerhouse Group — has seen rapid expansion and now has three companies within one group, specialising in corporate affairs and consumer marketing, European Community affairs, national and local government and the publishing industry.

The group has offices in Brussels and Paris and expects to increase turnover by 50 per cent this year. Powerhouse has been appointed as public relations consultancy to the planned Sunday newspaper, The Sunday Correspondent.

Powerhouse Europe has linked up recently with John D. Wood Commercial and Jeffcocks Donison International, chartered accountants, to set up a European advisory group for companies seeking to make the best of marketing opportunities in 1992 and beyond.

Although the Powerhouse accounts are handled "at the most senior level," this factor,



Vikki Stace: "Finding the right balance in a growing business is not easy."

In turn, highlights one of the most common management issues which small businesses run into: how does the key generator of a business disengage from the executive level to take on the time-consuming duties of owner/chairman of an

expanding company? "Finding the balance is not easy when clients consider you synonymous with the company," says Vikki Stace, who invested at an early stage in a comprehensive management structure for the expanding group.

employees and sales of £21m.

"If we are to go to the Unlisted Securities Market, I have to have credibility," he says. "Twenty years' experience in a private company is not enough and I have to put that right."

Ideally, he adds, he would have spent five years in a different business working with people who did not know he was the son of the chairman.

Transferring control of a company from one generation to the next is not always a smooth process — "there can often be savage battles," warns John Stanworth, a small business specialist at Central London Polytechnic.

To ease the change-over at Pearce & Cutler, Clive Cutler's father brought in Mr John Given, a Scotsman with wide management experience, as

temporary non-executive chairman.

Sometimes, it is the new generation which wants a safety device built into the change-over. When Mr Anthony Poeton returned from running his family company's German subsidiary to take over as managing director in Britain, he asked for someone to be appointed to arbitrate in any disputes. A mediator was appointed from the firm's auditors, but there were no disputes and after three years the arrangement was ended.

Mr Poeton also insisted his terms of reference were set down in a formal contract of employment with A.T.Poeton, a manufacturer of surface coatings which has sales of £4m and 140 employees.

Just as important as ensuring that the next generation of

the family fit in well is the question of how to motivate managers who are not members of the family.

A start can be made by only appointing family members who would have made it on their merits anyway — however difficult it is for a father to be dispassionate about his children's qualities. The owners must also make sure that only the family is seen to be benefiting from the company's success.

Some accountants and merchant bankers who deal with private companies believe that in Britain at least the tradition of passing on the family company to successive generations may be weakening. It is so easy now to arrange the sale or flotation of a private company that more families in future will take out their money rather than stay to solve the problems, they say.

But, despite the fact that stock market listings and corporate sales have reached record levels in recent years, family ties are strong. The family business has proved a durable institution in the past and seems likely to remain so for a long time to come.

QUALITY MANAGEMENT

# Increasing pressure to improve products

THE OWNER of the smaller business often identifies more closely with his or her products or services than the manager of the larger company. Yet relatively few small companies adopt a coherent approach to the question of quality.

Quality management tends to be neglected because few companies know how to go about it, beyond checking the finished items as they come off the production line and because its impact on profit margins is difficult to gauge.

Increasingly, however, pressure is being put on the businessman by his customers and by the law-makers to improve quality. Large companies in the automotive and retail fields, for example, and public sector organisations such as the Ministry of Defence and the National Health Service already insist their suppliers meet prescribed quality standards.

reference to particular products or services. They apply only to the way a company manages its business activities. They set standards for every area of activity, from purchasing to despatch, from design control to training schemes.

The aim is to replace quality inspection at the end of the production line with a system of quality assurance through every stage of production. The most difficult and expensive stage to remedy a fault is when the product is almost ready for shipment or, even worse, when it has been delivered to the customer. It is far better to prevent faults occurring in the first place, the theory goes.

A key element in quality assurance is the quality manual. This need not be a thick volume but it should lay down who is responsible for doing each job and when, where and how the work is to be done.

A system for correcting faults is crucial to improving

ing fixture which had been stored away under a work-bench.

Gaining BS5750 approval can be a lengthy and exhausting process for a company, particularly a small one which has no experience of setting down formal control systems. Krouse spent 18 months preparing itself, and according to Mr John Krouse, managing director, this put considerable strain on the management and supervisors.

Krouse's managers had budgeted £33,300 to obtain BS5750 approval, including £28,000 worth of management and other labour costs. The final cost, after taking into account a 5 per cent contingency allowance and inflation, was just under £36,500.

Once a company has gained approval it is regularly inspected to ensure that it maintains standards. HTEC, a Southampton-based manufacturer of computer and telecommunications equipment with 125 employees and sales of £8.6m, says the inspectors come for a day and pick out one aspect of the business for close scrutiny.

Companies which let quality slip are given a second chance to tighten up controls. But if they fail to act on the inspectors' criticisms they may be delisted, a fate which befalls five or six companies a year.

Is all the pain worth it? Getting companies to pinpoint the precise benefits of quality assurance is not easy because often market conditions have changed or other factors are no longer comparable.

For Russell, gaining BS approval helped win orders and new customers and allowed the company to diversify into the manufacture of hotel bedroom furniture, according to Mr Gordon Bates, managing director.

HTEC also points to winning orders it would otherwise not have gained, including one from a French customer. So pleased was HTEC with the results that it has extended quality approval from its computer products to its telecommunications products.

For its part, Krouse is finding that many of its customers, including a number of large companies, are taking an interest in the idea of quality assurance. As far as it knows though no other company has obtained BS5750 approval. Attitudes to quality are changing but there is still a long way to go.

**Quality systems, once seen as the preserve of larger companies, are being used by smaller companies as they see the benefits.**

quality. It should not only remedy the immediate defect but also lay down what needs to be done to prevent it recurring. This can range from reviewing purchasing methods if defective raw materials are being bought to changing the way instruments are calibrated if they are not achieving the required standards of accuracy.

For JD Krouse, an Oxfordshire engineering company with sales of £1.25m and a workforce of just under 40, quality assurance has meant the introduction of strict procedures for handling incoming orders. The company compares the order with the job for which it quoted and checks that the issue numbers of drawings tally. These simple if time-consuming procedures ensure that the customer has not re-designed the part without telling Krouse — a process which could double the amount of work involved and lead to the customer refusing to pay.

Krouse has also numbered and catalogued all its tools and production aids. Previously, it was not uncommon for hours to be wasted while a worker hunted for a drill jig or a turn-

ing fixture which had been stored away under a work-bench.

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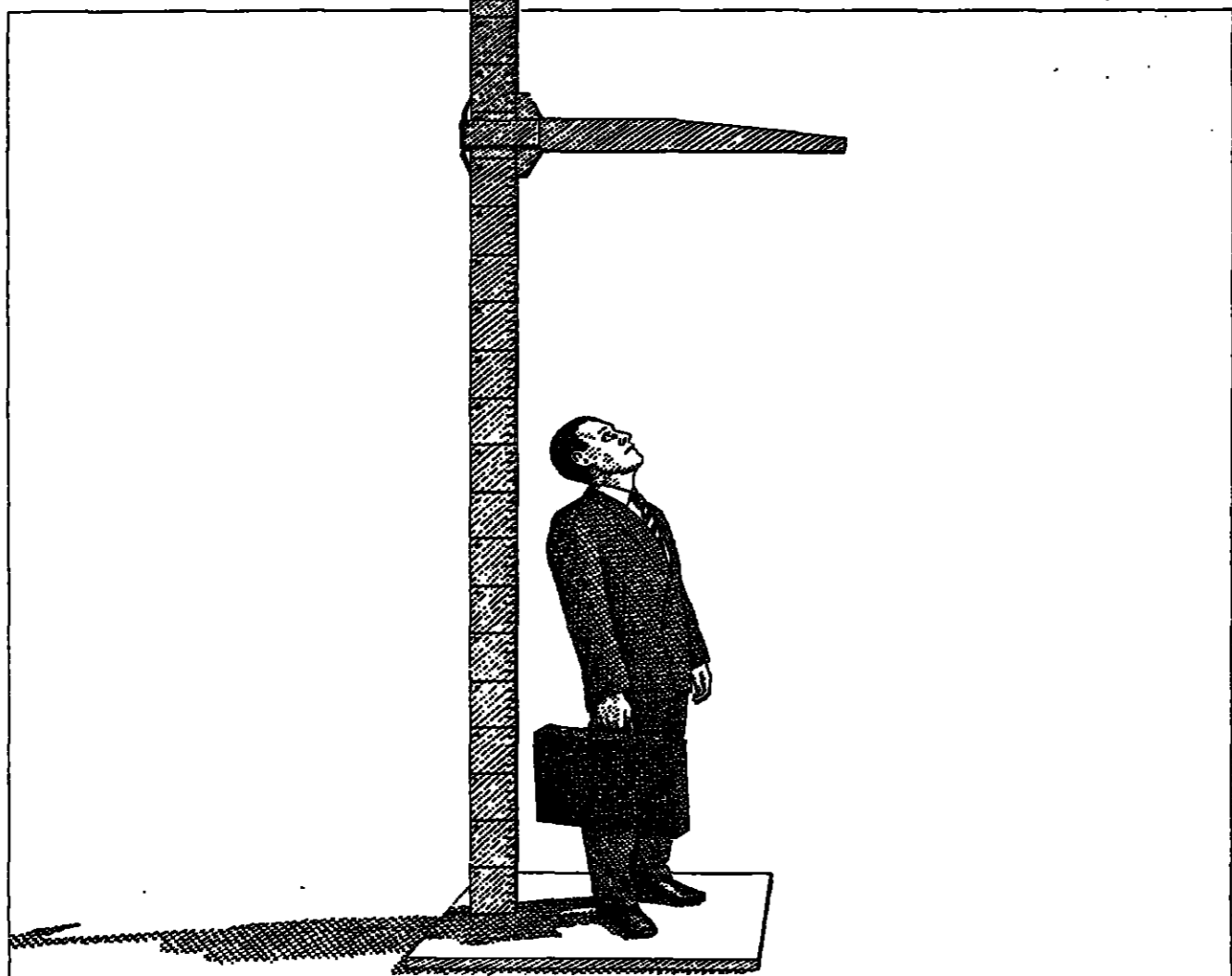
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## Case Study: Cascade Biochem

### Trying to find the right staff

DEREK CLISSOLD, 44-year-old founder of Cascade Biochem, faces a problem common to many entrepreneurs in young high-technology businesses.

His knowledge of his product makes it difficult for him to spend much of his time at his laboratory bench. At the same time, the demands of his rapidly growing business require him to get out and meet customers, to follow up enquiries and to produce a catalogue of his company's products.

"I don't think that two years down the road I should still be in there in a white coat putting things into vials," he says. But the only way for him to get away from the laboratory bench is to recruit more staff.

Finding people who understand what he is doing is difficult, however. It is also expensive.

"I really need one other good person," he says. "I know the people but they would want £20,000 to £25,000 a year." An alternative way of rewarding and motivating his staff is to offer them shares so his main partner is to become a shareholder with a 10 per cent stake in the company in July.

Working from two laboratories at Reading University, Mr Clissold has produced more than 100 different products. Cascade specialised in making mediators — chemicals which are implicated in causing inflammatory and allergic illnesses such as arthritis, asthma and rheumatism.

Pharmaceutical companies use Cascade's mediators as target practice for the drugs they are developing to combat or alleviate these conditions.

Cascade achieved a pre-tax profit of £37,000 on turnover of £26,000 in its first full year to December, 1988, and currently employs four people including Mr Clissold's wife, who does the administration,

at Cascade.

Mr Clissold spent 18 years working for large American pharmaceutical companies before deciding to strike out on his own. He was head of British process research and development team for Eli Lilly, a US group, when he started working on the mediators he now produces.

He came to Reading University to do post-doctoral studies though with the idea in his mind that he would like to start his own business.

At about the time that he was setting up his business, Mr Clissold followed a part-time Firmstart small business training course, spread over six months at London Business School. This course gave Mr Clissold and his 15 fellow students a grounding in subjects such as marketing, finance and personnel issues.

Mr Clissold initially named his company Chiral Organics, a term which meant something to chemists like himself — but very little to the bio-chemists who, it turned out, were his main customers. So he changed the name to Cascade Biochem — a reference to the cascade of effects which lead to a particular disease — and found reader market acceptance.

"I wouldn't recommend changing your company's name," he comments. "You have to notify your customers, your suppliers and you have to change your bank account."

Cascade ships a good percentage of its production overseas, but it is now starting to concentrate on the US market. Mr Clissold has appointed Oxford Biomedical Research, a US group, as a distributor for the US market.

The two sides have yet to meet, though they have been in contact by telephone and fax. Mr Clissold believes there is great potential in the US for his products.

A problem he still has to



Derek Clissold: facing a common problem

premises at Reading University. The part of the campus where he is based has been sold to a Japanese university and Cascade may have to move.

This would mean the company no longer had access to the university library, which allows Mr Clissold to keep up to date on the latest developments in his field. Nor would he have the convenience of nearby stocks of chemicals

"I have the horrors about having to work in my garage again," says Mr Clissold. He is looking, however, at the possibility of moving to another university.

Unfortunately, the problem of finding new premises represents yet another distraction from the task of expanding the business.

"I just don't have time to grapple with all these things," says Mr Clissold.

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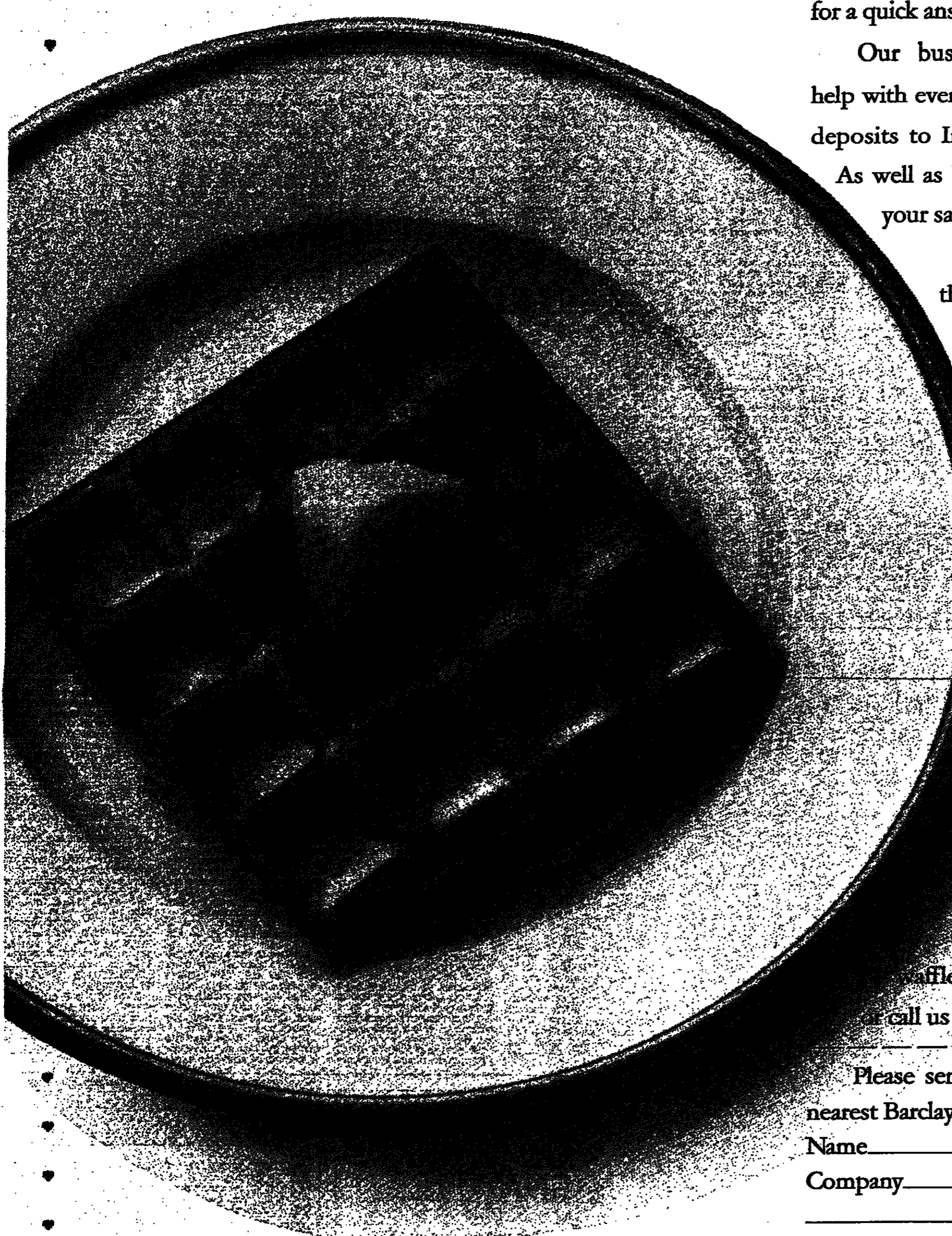
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GROWING BUSINESSES 7

JAPAN

# A striking turnaround

JAPAN'S relatively obscure small businesses have started most analysts by making a striking turnaround in the face of the sharp appreciation of the yen and are now riding high on a wave of economic prosperity.

Defying dire predictions, the country's small and medium-sized companies, many of which were export-dependent and therefore severely hurt by a much higher yen, successfully restructured or diversified into new areas.

The northern town of Tsu-bame, for example, the home of countless small and medium-sized companies that specialised in manufacturing cutlery for export, witnessed a town-wide diversification move in the wake of the yen's rise that transformed an entire regional industry.

When the higher yen began to hurt, the small businesses in Tsu-bame, rather than clinging stubbornly to their old trade and give in to the inevitable closures and bankruptcies, switched over, one by one, to making interior fittings that were more likely to find demand on the domestic market.

Today, the town's small companies, from family-run concerns to larger, more sophisticated organisations, are doing a thriving business supported by the domestic construction boom of the past few years.

"In terms of the number of businesses and the number of people they employ, small and medium-sized companies are the foundation of Japan's economy," says an official at the

Tokyo Chamber of Commerce. Over 99 per cent of all businesses in Japan are small and medium-sized - enterprises. They make up 99.8 per cent of the retailing sector and a substantial proportion of the construction industry, of wholesalers and of manufacturers.

The cutlery makers of Tsu-bame are only a very small part of the country's small business sector, but their recovery after the yen's surge exemplifies the remarkable ability to adapt quickly to changing trends that is the major source of strength for small businesses in Japan.

In many other countries, a potentially devastating change in the environment such as a major revaluation of the country's currency, would lead to some kind of political action, says Mr Norihiro Yokoyama, an official in the Small and Medium Enterprise Agency of the Ministry of International Trade and Industry (MITI).

"In Japan it leads instead to individual initiatives to restructure," he says.

Small companies, which lack the financial and human resources of the big and powerful large corporations, have found such initiative and flexibility absolutely crucial to their survival even in times of relative economic stability.

In this respect, they are well trained to be innovative and adaptable by an intensely competitive domestic market and highly demanding corporate clients with which they generally have very close ties.

"Japanese subcontractors try

to do as much as they can to meet the requests of their corporate clients, even if it is not in the contract," says Mr Yokoyama of MITI.

Those demands range from price cuts to reductions in orders when times are bad, to product changes that could require substantial technological improvements.

In return, the subcontractor is assured of a fairly reliable flow of orders, or if a cut becomes necessary during a slump, of more orders when business improves.

It is a "live and let live" situation that forces them to keep making improvements since even in a relationship of mutual dependence, the small company always faces the prospect of being cut off.

The smaller, family-run concerns operate on even more flexible terms. When times are slow and it becomes impossible to keep the business going, these companies often close shop for a while and members take up work elsewhere until the outlook improves and they can open their business again.

It is this environment, Mr Yokoyama says, that has raised the technological level of Japan's small businesses. Under these demanding circumstances, small businesses must keep adapting and improving their technology if they are to survive. Government policy is also geared towards encouraging adaptability and self-help among small businesses.

Japanese legislation aimed at supporting small and medi-

um-sized businesses is based on the premise that while small concerns with less than adequate financial stability need a certain amount of protection from environmental changes that could easily threaten their existence, the Government can only help them in their own efforts to help themselves.

So, while there are several measures aimed at financing businesses or helping them to find some form of financing for themselves, there is very little in terms of subsidy given to small businesses.

Financial assistance is mainly provided in the form of low interest loans to support companies' efforts to diversify or restructure into new businesses, to assist in expanding their business abroad and in acquiring new technology or developing new products.

Aid is provided to the various industry associations to support efforts to acquire new skills or develop new products.

But the Government does not attempt to rescue a troubled region or industry that cannot face up to changes to some extent on their own.

The steel towns in the north and the small businesses making Christmas tree decorations which could not respond quickly enough to their changing environment, thus no longer exist.

The most that the Government can and will do is to try and minimise the damaging effect of drastic economic changes by enacting legislation aimed at giving small



More than 99 per cent of Japan's retailing sector is made up of small and medium-sized enterprises. Above: the Nakamise-Dori Avenue shopping street in Asakusa, a district of Tokyo.

businesses the assistance they need to tide over the transitional phase.

An emergency law was established, for example, at the time of the yen's sharp rise to give financial assistance to businesses trying to reduce their dependency on exports.

The introduction this April of a new 3 per cent consumption tax, also prompted emergency measures to help small businesses make the necessary adjustments and to ensure that they would be able to pass on the tax to customers rather than pay for it themselves.

Another group of legislation, which has become controversial lately, is intended to make

sure small businesses are able to exist even in the face of competition from larger companies.

One such law, the Large Store Law, is aimed at enabling small stores to co-exist side by side with any larger store opening up in the neighbourhood.

Under the Large Store Law, any store over a certain capacity that applies to open near smaller stores must, in effect, win the approval of its neighbourhood shopping street association. It is not aimed at keeping large stores from opening or at preventing change, says Mr Yokoyama of MITI - "the point is to let the forces of

change work smoothly."

However, the US and other foreign governments see it as a barrier to imports because it is more difficult to get imports into small stores than large ones.

The sharp rise in starting-up costs for small businesses in Japan, due to the need for increasingly sophisticated communications and other high-tech equipment and the recent rise in land prices, mean that it is increasingly difficult to start a new business.

This is changing an important characteristic of small businesses, which is that they may be easy to start but easily

fail. Nowadays, while the number of small businesses that go bankrupt has not changed so much, the number of new small businesses that are set up has fallen.

A lack of successors in small family-owned companies is another serious problem, according to the Tokyo Chamber of Commerce. The high price of land often makes it impossible for the next generation to take over the business due to high inheritance taxes in Japan.

Michiyo Nakamoto  
in Tokyo

HONG KONG

# Keeping it in the family

HONG KONG'S brand of laissez-faire capitalism has provided a perfect environment for the small businessman, allowing the territory's entrepreneurial spirit to flourish against the backdrop of a good legal framework, a minimum of bureaucratic interference and a low tax regime.

To help the thousands of businesses which spring up each year without any special schemes to encourage them, the Government has provided training, market research and testing services to industry rather than the financial incentives and grants seen in some countries.

The individual with his small business forms the backbone of the Hong Kong economy in spite of the territory's ascendancy as one of the wealthiest areas in Asia.

A survey of the manufacturing sector carried out in the third quarter of 1988 showed that 253,000 people worked in establishments of less than 20 employees out of a total workforce of 844,000. More than half worked in companies with less than 200 people.

In the wholesale, retail and import-export trades, 394,000 out of a total of 517,000 employees worked in companies with less than nine employees.

"You don't have to do anything to encourage it," commented Mr Harry Garlick, assistant director for local affairs at the Hong Kong chamber of commerce, which has members ranging from the giant trading firms to hundreds of smaller companies.

"Inside every Hong Kong youngster is an entrepreneur burning to get out," said Mr Simon Tsang, lecturer at Hong Kong University's department of management studies.

"Hong Kong has a reverse of the Japanese model, where companies tend to get bigger and bigger, with a distinctive tendency in evidence. In Hong Kong we don't have a separation of ownership from management," he pointed out.

"The Chinese tend to see the company as a family property. Within a typical Chinese enterprise decision-making power tends to be monopolised by the head of the family, and hired managers tend to want to break away from their companies and set up their own, often taking a number of clients with them."

"As a result many apparently new small businesses have been operating for some time, with people running their own businesses on the side while serving as an employee. Networks are already in place, and the initial capital is borrowed from friends and relatives," he said.

Mr Tam contrasted this with the US, "where you first have an idea, make a plan and go to the bank for backing. The banks in Hong Kong come in at a later stage when a new business has established a track record, often taking property as collateral."

Mr Donald Taylor, deputy executive director of the Hong Kong productivity council, argued that this general absence of available financial risk capital does hinder

growth, and said banks should do more to help entrepreneurs in the early stages.

The productivity council is a government offshoot with an annual budget of about HK\$100m, helping the development of new processes and technologies in industry with training programmes, testing systems, and making information systems available to the right kind of businesses.

The council is a sub-contractor on a commercial basis for the design and manufacture of sophisticated tools, helping to bring new technologies such as surface treatments and specialist coatings to the territory. It also features training in computer-aided manufacturing and design, both of which are playing an increasingly important role locally.

"Most of our work is focused on industry related businesses," said Mr Taylor. "Although services to industry now make up about 40 per cent of total clients there is not a specific goal of hi tech, but rather a better use of technology in order to move into higher value added sectors."

"Hong Kong doesn't necessarily need hi tech," said Mr Taylor. "We support the growth of process-based industries." The work of the productivity council is complemented by the vocational training council, which operates a management development centre seeking to develop skills training for managers and make them ready for the challenges that growth will bring.

Certainly growth is in evidence in most sectors given Hong Kong's boom conditions, and there are countless opportunities for those with a good idea to start up businesses.

Mr Garlick pointed out that there is a high failure rate, with almost all liquidations on a voluntary basis.

"One of the great strengths of the Hong Kong entrepreneur is not only that he knows a good thing when he sees it, but also that he knows a bad thing when he sees it," Mr Garlick argued.

He said this willingness to get out of one area and try something different is one of the great lessons of the Hong Kong success story. In the small retail sector the constant renovation of shops is testimony to the constant changes of strategy by owners, with video rental shops, laser disc stores and four hour photo processing outlets some of the favourites.

In the manufacturing sector the move into China to take advantage of lower labour rates has opened up a range of opportunities for Hong Kong businessmen. Among the younger generation there is a noticeable tendency to become salaried employees, particularly as many return from abroad with qualifications, but no one doubts that the next generation of successful businessmen are ready to maintain the Hong Kong success story.

"Businessman is still a term of respect in Hong Kong," Mr Garlick said, something which cannot always be said of many other societies.

Michael Murray

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**GROWING BUSINESSES 8**

Ian Hamilton Fazez on changes in back-up for small and growing businesses in the UK

**Italy's small business sector**

Continued from page 6

national average while the sector as a whole has been much less successful than large companies in simultaneously modernising production processes, products and company organisations.

In Prof. Mussati's view, the exporting advantage of flexibility which small businesses have been deriving from not developing commercial structures abroad could become a handicap in future global markets where success will require more solid organisation.

Their other great operating and development problem is the cost of finance and the difficulty of obtaining cheap, medium term investment money.

The present Italian Minister for Industry, Mr Adolfo Battaglia, has been struggling for two years to put together a framework law which would strengthen the small businesses' response to the problems of innovation and financing.

After taking months to clear the normal bureaucratic hurdles, approval by the cabinet has now been delayed by the political crisis which broke on May 19 with the resignation of Mr Ciriaco De Mita's government.

Mr Zattaglia's proposals include: tax incentives to encourage the start up of new companies and their initial research and development; tax credits to encourage businesses to step up their R&D expenditures; credits for the acquisition of advanced machinery, information systems and scientific equipment; incentives for the creation of consortia both for the acquisition of equipment and raw materials and also for the setting up of shared distribution systems and joint participation in bidding for contracts.

The plan also seeks to encourage the creation of closed investment funds as well as venture capital funds and participatory loans.

John Wyles  
in Rome

THE most important change to the sources of help for small and growing businesses in the UK is now on the way - the Government expects the Training and Enterprise Councils (TECs) to play a central role in entrepreneurial development and link closely with the national array of 300 enterprise agencies.

At the same time, the Government's Small Firms Service (SFS), will become less active in the help it gives. It means that the trend towards making the enterprise agencies the main starting point and source of help for small businesses is likely to move to its logical conclusion - the agencies will become closer to one-stop shops for help and advice.

Mr John Cope, the Employment Minister, told a conference of enterprise agency representatives in April that the SFS will stop offering free counselling and subsidised consultancy for small businesses as the TECs are set up under the control of industry and commerce over the next three years.

The SFS has long operated and promoted two linked types of service for small business, one offering well-packaged information and the other using consultants to visit businesses and advise them on solving problems and how to grow. The consultants are often highly experienced retired managers.

Mr Cope says the information side of the SFS will continue and will be based in regional offices but that he wants the TECs to be responsible for making sure that counselling support for small businesses in their areas will be sufficient.

Each TEC will decide whether to hire individual counsellors and to choose where to get them from. However, the Government expects the local enterprise agency, not the SFS, to be the first thing to spring to people's minds.

Mr Cope emphasises this: "I hope all of the TECs will have a relationship with the local enterprise agencies and will contract with them for provision of counselling in their areas for their areas. This provision will be one criteria Government will look for when awarding a contract for a TEC."



Mr Michael Wimwood (left), director of the Bristol-based New Work Trust Enterprise Agency, was one of the speakers who joined the Small Firms Minister, Mr John Cope, (right), at the relaunch of the Government's Loans Guarantee Scheme.

TECs were launched on the private sector by the Prime Minister in February. Approximately 90 are expected in England and Wales with another 20 in Scotland. Each will be led by the private sector and will be given funds for industrial and enterprise training in areas containing a total workforce of about 350,000.

The TECs will take over the running of the Youth Training Scheme, Employment Training, the Enterprise Allowance Scheme and are expected to develop small business training services. The Government has asked industry and interested parties to form groups and bid for TEC contracts. Bids are already going to the Department of Employment.

The chairman's conference, sponsored by Business in the Community (BIC) and Shell, was called to debate the future of Britain's network of more than 300 enterprise agencies, which over the last 10 years have increasingly been a prime and growing source of advice for small businesses.

Mr Cope says that the agencies, which are all partnerships between public and private sectors, can stay independent if they wish, but the consensus of their chairman seems to be that it will be strategically critical for them to become part of the TECs.

There is little doubt that this is what the Government wants. The TECs are also expected to resolve a wide range of demarcation problems in the area of advisory services for small business, as well as assisting

**Where to go for help**

happen if agencies start undercutting their own sponsors in fields such as accountancy services and business consultancy or if other sponsors find that agency clients are becoming competitors.

BIC, however, is to launch a national advertising and telephone sales campaign to persuade many more medium-sized and smaller businesses to become agency sponsors.

The aim will be to raise the level of private sector sponsorship - which comes at present mainly from the largest 200 companies in the UK - from £36m a year to £50m. The extra money will offset the phasing-out of government support, which has helped the number of agencies expand from three to 300 in only 11 years.

To get more out of the agencies, networking might see an agency specialising in certain types of counselling - such as obtaining venture capital or in export marketing - and being fed with clients by its neighbours, each of which would offer different expertise.

The big sponsors certainly want more co-ordination, as has just been proved on Merseyside where an experiment called Liverpool Enterprise has just got off the ground. It will have a chief executive and small staff to co-ordinate the work of five different enterprise and training agencies in

the city.

First-year funding of £60,000 will be met largely by IBM, the computer group, which is providing £20,000, and Barclays Bank, which is contributing £10,000. Lloyds Bank has offered £2,500 plus a second year, and this level of private sector commitment has encouraged Merseyside's City Action Team to ask the Government for £27,500 from the urban programme.

Second-year sponsorship is already being committed, with a promise of £10,000 from United Biscuits, another leading national sponsor of the enterprise agency movement.

This would seem to suggest that although the role of the agencies is going to change and develop, they are going to become increasingly central in terms of small business advice.

The characteristic that all the agencies share is that they are part of the general network of professional services and advice which small businesses can tap into. Accountants, solicitors and bank managers all know them, as do local authority industrial development officers and civil servants.

Most are able to take the leg-work and brainwork out of searching for where to go for the best advice, saving time and worry for small business people wondering whether

they are on the right track.

However, the role of the agencies and, eventually, the TECs, will not impinge on the Government's enterprise initiative, a series of subsidised consultancy packages promoted by the Department of Trade and Industry. These are considered to be for medium-sized or larger type of small business which can afford to pay more for the specialised advice involved.

The DTI has set up a network of regional centres providing information about the enterprise initiative. These can be approached directly, though enterprise agencies will refer clients if appropriate, as they would to regional economic development agencies such as Lancashire Enterprises, Greater Manchester Economic Development, or the Northern Development Company (NDC).

Bodies such as the NDC have formed federations for particular industrial sectors to bring small business together with big business and promote more local buying of goods, components and services within the region.

For example, there is a federation for computer software and another for the offshore industry. At the same time, the NDC has set up a procurement office to help small businesses bid for government contracts. Local authorities also remain

an important source of information for small businesses, especially as regards premises and also over special grants and incentives they may offer locally to people moving into their area and creating jobs. Town hall industrial development offices are therefore always worth trying.

So are chambers of commerce, good apart from maintaining good information about their regions, are always on the lookout for members.

Useful telephone numbers include:

- The nearest enterprise agency can be found through Business in the Community, 01-253 3716. Any of the agencies should provide the easiest way in to the maze of information about available help.
- The Rural Development Commission can offer advice about operating in the countryside. Its headquarters are in Salisbury, 0722-338353.
- The Northern Development Company is based in Newcastle-upon-Tyne, 091-261 0026. So is Operation LiveWire, the organisation which helps people under 25 into small business. It has a regional network based on counties. Headquarters is on 02-241 5534.
- Greater Manchester Economic Development is on 061-236 4412. Lancashire Enterprises: 0772-735231.

**Case study: Irene Davies**



Irene Davies with her business partner, Albert Snoddy; winners of a London Docklands Enterprise Award.

IRENE DAVIES became bored with her job and decided to start up in business on her own. In the space of five years her workforce has risen from one to 36 and she is forecasting turnover of more than £1.5m this year.

There is nothing unusual about that, except that the business she went into was not a fashionable one: Spencer Construction and Engineering now claims to be the largest manufacturer of steel storage tanks and silos in south-east England.

Mrs Davies, 45, does not get involved in the manufacturing process, though her partner, Mr Albert Snoddy, is a skilled plater. Her husband, Vernon, a former docker, also works in the factory. Mrs Davies' contribution has been a deceptively relaxed management style which has brought success in an industry with few if any women managers.

After an early career which included a spell as a temporary shorthand typist for the Cuban embassy and as a buyer for the Cuban national airline, she joined Mr Snoddy and another partner in setting up a metals fabrication business. At its peak this company employed 60 people. But after 11 years Mrs Davies became bored and set up on her own with £200 of capital and one skilled worker. A year or so later, the other company went into liquidation and Mr Snoddy joined Spencer Construction.

Mrs Davies started in 1984 in a back yard in Plaistow, east London. The company began making platforms and staircases for Newham council but moved on to making silos, pipelines, storage tanks and jetties for many

shops which make up this part of London.

From turnover of £23,000 in the first year ended June 1985, sales rose to £1m in 1987/88, producing pre-tax profits of more than £100,000. This year's order book is full and turnover is expected to exceed £1.5m.

Spencer's expansion has been funded almost entirely from its own retained profits, though Mrs Davies borrowed £60,000 to help finance the purchase of the present factory site.

"We don't believe in borrow-

ing - and we don't like having an overdraft," she says.

The main problem facing Spencer is the difficulty it has in recruiting and keeping skilled labour. The company currently employs one apprentice (another recently left) but it has been looking for another three or four apprentices for the past two years.

"We have them for two or three months and then they leave because they don't like the job or they can get more money somewhere else," says Mrs Davies.

An apprentice in his late teens will earn about £100 a week, though many of Spencer's older qualified workers earn £500 a week. Other smaller engineering firms in Silvertown are turning work away because they cannot find the labour, she says.

Mrs Davies says she has never had any management training, though her 11 years with the first engineering business gave her invaluable practical experience. She recently won the Docklands Enterprise Award, which carried the prize of a one-week management course at Ashridge Management College, a business school in Berkhamsted, Hertfordshire. So far, she says, she has been too busy to take a day off, let alone a week.

Now that Spencer is well established, Mrs Davies says she is looking round for something different to do. She has been considering expanding by buying an engineering design consultancy, or going into plant hire.

"We've got to do something which is a bit of a challenge," she says.

Charles Batchelor

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INSIDE

Silence is golden in the Next shop

The board of Next, the UK retailing group, has stirred up controversy by refusing to reveal to shareholders details of the golden handshake payments made to Mr George Davies (left), the former chairman, and his wife Lisa. The case highlights the legal grey area surrounding the obligations of companies to make such information available. Robert Rice reports. Page 28

Teamwork tensions over pay

GTE, the telecommunications company, has just introduced a new payments system at one of its US factories which attempts to overcome what could develop into a sharp dilemma for many employers: the tension between more collaborative team working and performance-related pay. Charles Leadbeater examines the issue in the Business Column. Page 48

Trouble ahead

Shareholder discontent seems set to surface at the extraordinary general meeting of Chloride, the batteries group, on Friday. The meeting has been called to approve the sale of Chloride's motive power business to Compagnie Generale d'Electricite, for £25m (\$87.5m). Nikkai Tait reports. Page 28

From the Finland station

Finland. That was the only borrower's name on people's lips in the Euromarkets last week, following an innovative deal for the country launched by JP Morgan, which had rival syndicate managers reaching for their thinking caps. The novelty was that investors in previous Finland deals could choose to switch into the new issue. Andrew Freeman examines the market's reaction. Page 24

Return to health

Until early last year, Wipac, the UK motor parts and accessories company, was slowly dying - unable to adapt to modern market conditions in the sector. But then a management buy-in was completed. John Griffiths reports on developments since the change of control. Page 27

Market Statistics

Table with 2 columns: Index Name and Value. Includes items like Dow Jones, Nikkei, FT-100, etc.

Companies in this section

Table with 2 columns: Company Name and Page Number. Includes Avesta, Bank of Montreal, Chloride, etc.



BMW's new 5 series model: helped to boost sales performance

BMW goes into overdrive in race for market share

Haig Simonian examines the company's latest results

WHAT CAN go wrong for BMW, the West German quality vehicle manufacturer, whose 1988 results last week spoke in almost the same superlatives as its advertising copy? Executives at the Munich-based high-performance car and motorcycle group have good reason to look smug. In the past year, production, sales and profits have accelerated faster than one of its 12-cylinder saloons. If growth continues at this pace, BMW may soon face the same pericardial dilemma as its arch-rival Mercedes, which managed 10.3 per cent.

BMW Registrations table showing percentages for various countries: Jan-Apr 1988, West Germany (71.27%), UK (2.27%), France (1.5%), Japan (+13%).

The real test of President Bush's ability to lead

By Anthony Harris in Washington



THE international bankers gathered in Madrid this week ought to feel some sympathy with US Congressmen. Join the Scapigoats' Club, either might say to either. While neither group is blameless, both have some right to feel aggrieved; yet both now have the chance to move on to better things.

The few bankers and journalists who tried to give the warnings that bank supervisors should have given got a very different official reaction.

But at least one factor handicapping BMW - the switch to the new 5 series model, only launched in the US last October - has been removed. Thus sales have responded quickly, rising by 2 per cent in the first four months of this year and putting BMW alongside Volvo as the only European luxury car makers to have grown last year.

So much for old scores: what chance does the Brady initiative now have - and what about the countries which will not in any case qualify?

The effect of currency factors is harder to judge. Like other European exporters, BMW was much on its foreign exchange, which increased prices and reduced profits in D-Mark terms. Mr von Kuenheim stressed that the company was trading profitably in the US. But how well its US profits recover will depend as much on its foreign exchange hedging skills as on demand.

It will be surprising, all the same, if the Mexican negotiations do not produce some at least marginally useful results, which will serve as a model for Venezuela and for some of the smaller debtors.

Economics Notebook  
Green thoughts at the OECD

THANKS to last year's US drought, the hole in the ozone layer and Mrs Thatcher turning green, the world's industrial countries are now firmly on the way to reconciling worries about the environment with the need for economic growth.

Crumbling fortress

The United States seems to be overcoming its fears that the European Community's 1992 programme for a barrier-free internal market will create a "fortress Europe."

THIS WEEK

FRESH clues about trends in US inflation will be provided by producer prices figures for May, published on Friday.

The index of the prices of finished goods is regarded as an advance warning of movements in retail prices. Figures released last month were interpreted as pointing to a moderation in inflationary pressures, leading to strong rises in share and government bond prices.

Other US figures include consumer credit statistics on Wednesday. The consensus is for a rise of \$9m, compared with \$3.6m in March.

Interest in the UK is likely to concentrate on the strength of the consumer sector. Final figures for retail sales in April are published today and analysts will be looking for revisions to provisional figures showing an unexpectedly large fall of 1.4 per cent.

Also out today are figures for consumer credit in April which will show whether the recent slowdown in personal sector borrowing has continued.

A pointer to trends in retail sales during May will come in the Confederation of British Industry/Financial Times distributive trades survey on Thursday. It is likely to be watched closely for signs that sales volumes remain subdued.

The survey covers sales volumes reported by retailers last month and expectations for June. This month it will also include questions on imports, prices and employment.

Mr Nigel Lawson, the Chancellor, answers questions in the House of Commons on Thursday. Analysts will be looking for hints about interest rate and exchange rate policies and for evidence of any rift

US Producer Prices



between him and Mrs Margaret Thatcher.

In West Germany, trade figures for April are expected tomorrow and are widely expected to show large surpluses continuing. However, some moderation is expected after the DM12.8bn (\$8.54bn) surplus in March.

Today: Organisation of Petroleum Exporting Countries ministerial meeting in Vienna. US auto sales in May.

Tomorrow: UK, Halifax Building Society publishes its monthly house price index. Housing starts and completions in April. US initial unemployment claims and 10-day auto sales.

Wednesday: UK, advance energy statistics for April. Department of Employment publishes Employment Gazette. Mr Karl Otto Pöhl, President of Bundesbank, speaks in Cologne.

Thursday: Dr Theo Waigel, West German finance minister, speaks in Aachen on customs. Australian unemployment and employment figures for May. US House of Representatives Ways and Means Trade Subcommittee hearing on "Super 301" list of unfair traders.

Friday: UK, construction output in first quarter of 1989.

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INTERNATIONAL CAPITAL MARKETS

EUROCREDITS

Qatar makes a surprise debut

FOR YEARS there has been speculation about when the Gulf state of Qatar would make its first borrowing in the international loans market. Now it has done so, springing something of a surprise: the \$200m five-year credit being syndicated among international banks is being arranged not by an Arab bank but by a US bank, Chase Manhattan.

This seems unlikely to be a source of joy at Gulf International Bank. GIB is owned by the seven Arab states of the Gulf - Saudi Arabia, Iraq, Kuwait, the United Arab Emirates, Oman, Bahrain and Qatar - and has come to be thought of almost as the house bank of the region's governments. The bank has not had an easy passage in recent years because of weak oil prices and the economic contraction in the Gulf.

The loan - which carries a 2 1/2-year grace period and an interest margin of 2 1/2 basis points - is the latest in a number of successes in the region for Chase, which is underwriting the whole \$200m. Early in the year the bank offered to underwrite the whole of a \$400m, three-year deal for Qatar General Petroleum Corporation, at an identical margin.

Oman has been a fairly regular borrower in the international markets, a fact reflected in the margins it pays, split between 1/2 and 3/4 point. Qatar has not, but this may mean banks do not have credit limits for the country. Given that Qatari nationals are counted in the tens of thousands (ignoring the larger expatriate population), the credit represents an extraordinary amount of gross external debt per capita. Qatar is still, however, considered to be a large net creditor, which enjoys significant earnings from its oil exports.

The biggest new credit of last week, and bankers say the fastest information memorandum and lengthiest presentation to bankers, was that of Harper & Collins. This is to be the name of the group of mainly financial investors buying a group of publishing interests from the stable of Mr Rupert Murdoch.

The new group - which incorporates William Collins of the UK, Harper & Row of the US, and some Australian and New Zealand magazine interests - is borrowing \$1bn. The financing, arranged by Manufacturers Hanover, comprises a \$800m seven-year and a \$120m revolving credit for working capital.

The credit is plain - no disposals are being built into the buy-out plans - and the interest margin starts at 1 1/4 points, declining along with the company's gearing. When that falls to 1/2 times, the margin falls to one point. It is underwritten by seven banks.

In the UK, Morgan Grenfell has put together what it says is the first acceptance agency facility, a \$50m facility for Coloroll. The facility is meant to complement the group's other short-term borrowings, including a sterling commercial paper programme on which Morgan is a dealer. Acting through Morgan, Coloroll will use the cheapest market. Banks tendering for acceptances will know whether their bids have been accepted on the day they make them. Most wait 48 hours.

In the Eurocommercial paper market, South Australia Brewing has a \$200m programme, arranged by Swiss Bank Corporation International, with Citibank and J.P. Morgan also acting as dealers.

Stephen Fidler

EUROMARKET TURNOVER (\$bn)

Primary Market

Secondary Market

US\$

US\$

US\$

US\$

INTERNATIONAL BONDS

Finland's innovative \$250m deal arouses controversy

THERE WAS only one borrower's name on people's lips in the Euromarkets last week - Finland. If that was unusual, then it followed Tuesday's innovative \$250m deal launched for Finland by J.P. Morgan, a deal which had rival syndicate managers reaching for their thinking caps.

The seven-year issue, carrying a 9 per cent coupon and a spread against Treasuries of 49 basis points, came with a novel exchange offer. Investors in previous Finland deals could choose to switch into the new issue, which would be increased accordingly to a maximum of \$1.05bn.

Three days later, some \$155m had been registered for exchange, meaning that the issue size will rise to at least \$400m. There are still two weeks during which investors

can decide to switch. Initial reactions to the deal were encouraging, although there were murmurs of disagreement which grew louder. While the new issue was judged as fairly priced, syndicate officials expressed concern not only that some investors were being offered a raw deal, but also that it was far from clear that the borrower would really benefit.

Argument about the deal diverged from general agreement that the idea behind it was brilliant, depending on whether the borrower's or investor's perspective was adopted.

For the borrower, the deal seemed to offer an opportunity to concentrate its borrowings in a single, liquid benchmark which should trade on a tight spread against the US government bond market. Previous

Finland issues have been small and have tended towards illiquidity, so that the borrower complained that its deals underperformed those of comparable sovereign issuers.

By creating a benchmark deal, Finland hopes to command a tighter spread when it borrows in the future. The money spent to create the benchmark, both during the actual deal and in the buy-back programme which preceded it, will in theory be recovered by more competitive funds.

Syndicate managers outside the deal question this line of argument, accusing it of being illogical. They point out that Finland is not a borrower with regular funding requirements, that new issues are also priced against the market rather than merely against a liquid secondary issue by the same borrower, and that any benefits in

terms of costs are highly speculative and hard to quantify.

Mr Peter Bernard, syndicate manager at J.P. Morgan, did not rule out these arguments, but maintained that the evidence was already there in spread terms that Finland deals would trade more competitively in future. He pointed out that in an increasingly institutional market, liquidity was of growing importance to investors and that Finland was giving the market what it wanted.

From investors' points of view, the arguments were quite different. For tax and reporting reasons, there are many investors who will go to great lengths to avoid a capital loss on their transactions.

They are put in a difficult position where they hold old Finland bonds, many of which can only be exchanged by tak-

ing a capital loss. One alternative is to hold their bonds, but the investors know that these will be even more illiquid than they were before the exchange offer was made.

A third possibility, switching into a completely different issue, was dismissed by most traders as too expensive on the sell side, although J.P. Morgan said it was making the same bid price whether investors were exchanging or simply selling their Finland bonds.

In reality, then, the new structure should appeal mainly to those investors who can tolerate a capital loss. They can switch into last week's deal for a yield and liquidity pick-up, confident that they will be able to trade in size.

There were more controversial undertones to the discussions of the deal, however. J.P. Morgan made no secret of the

fact that some weeks before the exchange offer, it had operated a buy-back programme for Finland, acting as agent for the republic.

Such programmes are common enough, but they have never before been followed by a deal which finds part of its justification in the illiquidity of the secondary market in the same borrower's issues. Arguably, the buy-in itself made illiquid deals even more illiquid, so that investors faced an even starker choice when the exchange deal was announced. While there was no suggestion that there was anything untoward, one syndicate official commented that it had played into a growing awareness that the bond market was not exempt from potential conflicts of interest.

Andrew Freeman

NEW INTERNATIONAL BOND ISSUES

Table with columns: Borrowers, Amount m., Maturity, Av. life years, Coupon %, Price, Book runner, Offer yield %, Issuance date, and Offer yield %.

Web to June 1, 1989 Source: AIBD

TURKIYE GARANTI BANKASI A.S. U.S. \$70,000,000 Tobacco Pre-Export Facility. Arranger: Bankers Trust International Limited. Lead Managers: Allied Irish Banks plc, ASLK-CGER Bank, Banco Español de Credito, S.A. BANESTO, etc.

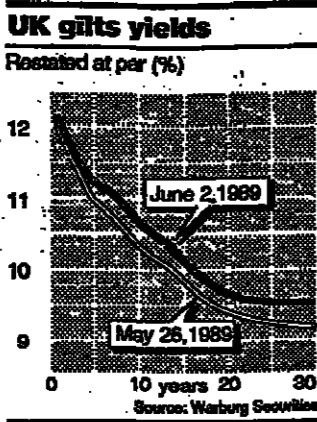
ZENCHIKU COMPANY LIMITED U.S. \$100,000,000 5 per cent. Guaranteed Bonds 1994 with Warrants. The Bonds will be unconditionally and irrevocably guaranteed by The Mitsui Bank, Limited. ISSUE PRICE 100 PER CENT. Daiwa Europe Limited, Bayerische Vereinsbank Aktiengesellschaft, Mitsui Finance International Limited, etc.



INTERNATIONAL CAPITAL MARKETS

UK Gilts Sought-after rates achieved at last

THE GILT-EDGED securities market last week witnessed its biggest shake-out since the aftermath of the 1987 October stock market crash. It was wanted to sell the long end of the market for some time, and reports that the Treasury was reassessing the funding rule were enough to tip the balance. The market was looking for a reason to break out of its trading range after a week of rumours about changes to policy, damaging speculation about differences between No 10 and No 11 Downing Street and worries about sterling. With the peak in inflation some time off - in the near but indeterminate future - and with all the political and currency worries, the "cost of carry" seems just did not make sense. To buy long gilts below 10 per cent at current money market interest rates would have required a rise in prices at the long end of a point over the next three months for the investor simply to make sure of breaking even. In a sense the market's key move was last Wednesday when long yields rose decisively through the 10 per cent barrier. Friday's news, which put funding policy back on the agenda, consolidated the move above 10 per cent. In any event, the market wanted a somewhat flatter yield curve and it has got it. From the official perspective, funding policy is not about to



change. The line from both the Treasury and the Bank of England is, however, that policy is not fixed in concrete; it is assessed continually. Officials say they cannot rule out changes to funding policy but that this is not a rumour at present. It could, therefore, be an interesting summer. What seems certain is that pressure is building for an end to the situation in which the public authorities borrow at relatively cheap long-term interest rates and put them on deposit with banks at much higher rates. This "round tripping" has been a large cause of the cash surpluses in the money market. Possibly as much as \$50n of liquidity was added to the market through this device in 1988-89 and the indications are

that the Government may move to curtail it. The talk about over-funding has been largely confused. This is especially so in the case of Professor Alan Walters, the Prime Minister's economics adviser, who wanted monetary base control in the early 1980s, but was ultimately defeated by the Treasury and the Bank and settled for M0 as a consolation prize. It is difficult to associate over-funding with him as he is not a broad-money man and over-funding is all about reducing the rate of growth of broad-money aggregates. What is possible, however, is that a case could be made for saying that the operation of an M0 and exchange rate policy has not been unambiguously successful over the past two years. In this the Treasury and the Bank are vulnerable to attack if anyone with the ear of the Prime Minister chooses to do so. And the Prime Minister's recent comments on shadowing the D-Mark had the unmistakable ring of Prof Walters - a man known for his aversion to playing around with exchange rates. In the absence of broad-money targeting it is difficult to see what over-funding would achieve. If it came about simply to deal with the monetary sector's disinvestment of gilts, specifically the banks, then a change would seem not much more than a short-term exped-

ient which may do more damage to the credibility of policy than good. The problems created by the banks' sales of gilts - they accounted for a \$4bn injection into the money market in 1988-89 - may well have passed. At the end of April, the banks' holdings of gilts amounted to just \$4.9bn (building societies held \$7.5bn of gilts) and there is a limit to the extent to which their holdings can be run down. Also a move to over-funding on account of the banks' past behaviour assumes they will always be sellers; if they turn and buy gilts the authorities could find themselves in the embarrassing position of under-funding, with expansionary monetary consequences. More importantly, if the concern is that current funding policy is leading to too much cash sloshing around in the money market, which depresses short yields, then that is what is likely to happen if a move to over-funding takes place. The Bank will be required to assist the market, by buying commercial bills. As in the past the only way to do this is to force prices higher and short-term yields lower. In sum, a repetition of the current "problem" by different means. A better response would be to stop local authorities rick-tripping. Simon Holberton

US Money and Credit Stampeding bulls ignore obstacles

WITH long-term US interest rates falling below 8 1/2 per cent for the first time since March 1988, the case for buying bonds has rarely seemed more persuasive. The US economy is slowing. The Federal Reserve Board is flooding the market with leas about easing monetary policy, if not yet with money itself. The dollar is still riding high, yet the US trade position is holding up better than most economists had predicted a few months back. Against a background like this, it is hard to begrudge last Friday's 1 1/2 point rally and attempting to share the increase in widespread belief that a full-scale bull market in US bonds is finally under way. This morning, as investors respond to the exceptionally favourable report for May from the National Association of Purchasing Managers, it may seem hard to imagine what obstacles could possibly stand in this rally's way. The NAPM report provides the fullest reassurance imaginable for those faint-hearted who continued to doubt the economic slowdown even after Friday's weak employment statistics. The NAPM's composite index, which is probably the

best and certainly the most immediate indicator of cyclical movements in the economy as they take place, fell to 49.7 per cent in May from 53 per cent in April. This was the first reading below 50 per cent since July 1986 - a crucial development since, according to the statistical analyses conducted by the NAPM and the Commerce Department, a number below 50 suggests "the economy is generally declining." Better still, the details of the NAPM figures revealed that the character of the slowdown was almost perfect from the bond market's and Fed's point of view. Export orders continued to increase in May, even if the rate of growth decelerated slightly. Capital spending remained fairly strong, while inventories continued to decline. The purchasers noted fewer delivery bottlenecks and the index of planned price increase fell dramatically to its lowest level since December 1986. What more could bond investors hope for? Presumably only a confirmation of the lower inflation trend in Friday's producer price index, followed (or possibly even preceded) by an explicit Fed easing and cut in prime rates. Unless the PPI

contains some unexpected horrors - which in the present circumstances might mean an overall PPI of more than 0.7 per cent and a rise in the core rate, excluding food and energy, of more than 0.5 per cent - the market could easily extend last week's rally. Of course, the market may pause for breath in the next few days and fall to react even to a decent PPI figure. Before committing themselves fully to another step reduction in interest rates, investors, as well as the increasingly impatient policy-makers in Washington, could well decide to wait for the batch of trade, industrial production and consumer price statistics due out next week. The fact remains, however, that even Wall Street's more sceptical bond analysts, such as Mr Bob Giordano of Goldman Sachs and Mr Bob Brusca of Nikko Securities, have to admit that, unlike the surge in bond prices which began last autumn and ultimately degenerated into the rout of early spring, the present rally seems to have economic sense. It is precisely at times like these, when all the evidence seems weighted overwhelmingly in one direction, that it is worth focusing on the factors which could pull the market unexpectedly against the universally recognised bullish trend. Despite all the present excitement, there seem to be at least three reasons why this may not be such a brilliant time to buy US bonds. Firstly, there is the level of the dollar. Although the dollar's recent surge has been seen almost universally as the catalyst which set off the rally in US bond and stock prices, its true effect is far more ambiguous. As the dollar has risen, so has the risk of holding US securities for overseas investors. Given the expected fall in short-term interest rates in the next few weeks, it may well turn out that last month's sudden climb by the dollar will prove to be a mere aberration or, even worse, the climatic spike which brings the 18-month mini-bull market in the dollar to an end. If the dollar starts to retreat in response to a monetary easing in the US, then the best investments to take advantage of this easing might be European and Japanese bonds, not American ones.

A second reason for caution is quite simply that so much good news has already been built into market prices. The long bond is yielding 8.5 per cent at a time when "good" PPI and CPI statistics are viewed as those which indicate an underlying inflation rate of "only" 5 per cent or so. For many tax-paying investors, this means the real long-term interest rate is now less than zero, and even for tax-free funds the real rate of 3.5 per cent is hardly a once in a lifetime bargain. The bulls argue, of course, that the present underlying inflation rate of 5 to 5 1/2 per cent is only a temporary peak. Inflation is known to be a lagging indicator and, given imminent slowdown in the US economy, inflation can be expected to start falling sharply six months to a year from now. In that case, it might be more reasonable to gauge long-term bond yields against a long-term inflation rate well below the present level. There is no shortage of willing analysts to predict that inflation will fall virtually to zero and long-term bond yields will decline to 5 per cent or so in the next few years. Unfortunately, such predictions fly in the face of political reality. As is all too evident already, there is no powerful constituency in the American public, in the Federal Reserve Board, or even on Wall Street, which favours a drastic reduction in inflation. The clearest evidence for this is provided by the speed with which both the Fed and Wall Street have concluded that "a soft landing" is now assured and that interest rates must be cut immediately to avoid an outright recession. This points to the third and most important reason why US bonds at present levels may prove a dubious investment in the long term. It is now likelier than ever that the Fed will ease back from prematurely reviving the economic expansion well before inflation has been cooled down. To put it another way, the "soft" part of Mr Greenspan's soft landing seems to have been achieved. But in the US economy actually landing, or simply gliding downwards until it catches another inflationary updraft later on in the year?

Anatole Kaletsky

US MONEY MARKET RATES (%)

Table with columns: Last Friday, 1 week ago, 4 wks ago, 12-month High, 12-month Low. Rows include Fed Funds (weekly average), Three-month Treasury bill, Six-month Treasury bill, Three-month prime CD, 90-day Commercial Paper.

US BOND PRICES AND YIELDS (%)

Table with columns: Last Friday, Change on week, Yield, 1 mkt ago, 4 wks ago. Rows include One-year Treasury, Two-year Treasury, Three-year Treasury.

NRI TOKYO BOND INDEX

Table with columns: Average 1988, Average 1987, Last Friday, 12 wks ago, 26 wks ago. Rows include Government Bonds, Industrial Bonds, Bank Deposits, Corporate Bonds, Foreign Bonds.

FT/AIBD INTERNATIONAL BOND SERVICE

Large table listing international bond services with columns for country, issuer, amount, maturity, and yield. Includes sections for US, UK, Canada, Europe, and other regions.

Advertisement for Ameritech. Features a map of the Midwest region and text describing the company's services and financial performance. Includes the slogan 'The most information-intensive region of America' and 'is pulled together by Ameritech.'

STRAIGHT BONDS: Yield in redemption of the bid-price. Amount based in millions of currency units except for Yen bonds, where it is in billions. FLOATING RATE BONDS: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.m. - current coupon. CONVERTIBLE BONDS: US Dollars unless indicated. Prem - percentage premium of the current effective price of buying shares via the bond over the most recent share price. WARRANTS: Equity warrants prem - market premium over current share price. Bond interest as yield - coupon yield on current market price. Closing prices on JUNE 02.



**UK COMPANY NEWS**

**Lighting up the road for a brighter future**

John Griffiths on the changes taking place at Wipac since the management buy-in

FROM ITS prominent hill-top, the bleak, uncompromising factory complex of the Wipac Group glowers over the small country town of Buckingham like a 19th century satanic mill.

Even in the middle of the working day, its brooding, largely windowless buildings provide few signs that 365 employees, survivors from a much larger force in earlier decades, are still away.

Inside, the decor and fittings of management offices positively reek of an earlier, autocratic age, and entrenched resistance to change.

Until early last year, the buildings were telling no more than the truth: Wipac, a household name in parts and accessories to UK motorists for decades, had been slowly dying - unable to innovate, unable to adapt to the much stiffer quality, price and reliability standards being demanded of it by customers ranging from the vehicle manufacturers themselves to DIY car owners.

Robertson-Smith's backers arranged for £1m in new investment to go into the company, and further substantial investment is envisaged. Mr Robertson-Smith claims that productivity has been stepped up by 15 per cent over the past 18 months and wastage cut by a quarter. He says, however, that most importantly, the company has regained the confidence - and contracts - of its single most valuable customer, Ford.

In the past few years, Ford has been drawing up increasingly stringent, formal quality standards for all its suppliers, and a crash quality programme that Wipac has enabled it to cope more to comply with them.

Indeed, Mr Robertson-Smith has introduced at Buckingham a quality-targeted interactive video communications system for the workforce based on the highly successful programme developed by Ford itself for its suppliers and employees throughout Europe.



Wipac's management team - Alan Brown (left), manufacturing director, Michael Robertson-Smith, managing director, and Chris Fitzgerald, finance director.

Mr Michael Robertson-Smith acknowledges the depressing nature of the place but has no intention of doing much about it - yet. The 41-year-old former managing director of Unipart Industries, a division of the former State-owned Unipart parts and accessories group, and his small management team have been far too busy turning Wipac around as a business since Mr Robertson-Smith organised a management buy-in, completed in January last year.

The buy-in, backed by Kleinwort Development Capital, RCI Ventures and Orange Nassau Participations, appears to have worked more quickly than even Mr Robertson-Smith, Wipac's chief executive, might have hoped: Wipac announced a 25 per cent increase in turnover to £10m in its first year under new ownership, and after six straight years of losses the company is now operating profitably, according to Mr Robertson-Smith.

As part of the buy-in, Mr

new technology challenges coming up in area like lighting with which Wipac will have to rise to meet.

Much of its lighting business is in the original equipment sector, supplying companies like Ford with head and signal lamps, rear light clusters and fog and driving lamps. All have their roots in the original company, set up in 1926 at North Acton, London, as the UK service arm of the Wico Electric Company of the US.

It was bought from its US parent in 1941 by the Jarman family and renamed the Industrial Magneto Company. The Wipac trade mark was established shortly afterwards, with the move to the purpose-built Buckingham premises coming in 1953.

It had remained a family-controlled company until the management buy-in, but had last made a profit in 1981 and "there had been seven years of deteriorating relationships with both the original equipment makers and the aftermarket", observes Mr Robertson-Smith.

It was possible to attract financial support for the buy-in because of Wipac's original equipment base, and because its name at least remained well known in the aftermarket. However, he makes clear, nei-

ther had appeared likely to survive much longer. "We spoke to the major OEMs before buying to see if the situation was retrievable. They were very dissatisfied and looking to resource some of the key components for which Wipac was, actually, a sole supplier. But they agreed to give us a short period to demonstrate what we could do."

The strategy that therefore evolved was to give maximum priority to meeting quality and delivery targets of the vehicle makers - rewarded with Ford granting Wipac preferred supplier status last October.

"We are now doing development work for a number of vehicle makers", says Mr Robertson-Smith. Quality was not the only problem - "when we took over we had a totally demoralised and in parts apathetic work force - they needed the job but had given up on the company. Consequently, we invested a lot of time and resources in making sure people understood that Wipac really was back on the road."

Employees were told that "ship it regardless" practices

were at an end. "We gave every operator the authority and responsibility to stop the production line they were unhappy about either the parts or the process."

"That was a culture shock and it cost us dearly in sales. But it put the stop on poor quality. Since then we've seen a total change in attitude and enthusiasm."

But despite the progress made to date, Mr Robertson-Smith acknowledges that "we're only about 30-40 per cent down the path we want to go".

Although there are too many people for Wipac's current turnover, Mr Robertson-Smith insists that the company's turnover will grow to accommodate them. He expects to be able to achieve £50,000 turnover per person per year, compared with £30,000 now and £23,000 at the time of the buy-in.

About 60-65 per cent of Wipac's turnover is in original equipment, and Mr Robertson-Smith wants to grow the aftermarket parts and accessories side to at least par with OE.

To this end, as well as being developed and expanded, Wipac's aftermarket ranges are in the process of undergoing a marketing re-launch with new packaging.

On the OE front, Mr Robertson-Smith accepts that survival, let alone expansion, is a difficult business for companies the size of Wipac in a motor industry which is in the process of globalisation.

However, he is optimistic that opportunities will arise for joint ventures and other collaboration with similar companies in Europe and even North America and Japan as the globalisation process proceeds.

The next three to four years should prove whether his optimism is justified - which is roughly the time-scale of a hoped-for Wipac flotation.

Mr Robertson-Smith says the range will be expanded over the coming years. Furthermore, he points out that there are substantial

**No firm alternative proposals on the table for Gateway**

By Nikki Tait in London and Halg Simonian in Frankfurt

GATEWAY, Britain's third largest food retailer, yesterday declined to comment on mounting rumours that it may be seeking some sort of "white knight" escape route from the current £1.97m hostile leveraged bid being waged by the newly-formed Isoceles group.

"As far as I'm concerned, it is pure speculation," said chairman Mr Alec Monk yesterday of weekend press reports that West Germany's Tengelmann group could emerge as the white knight or, conversely, that US leveraged buyout specialists, Kravis Kohlberg Roberts, have bowed out of the situation.

Nevertheless, both Gateway and its advisers have said that various ideas had been put to the beleaguered group in the wake of the Isoceles bid, and it appears that several avenues have been - and are being - explored. But, as yet, Gateway is not believed to have received firm alternative proposals from any party.

Moreover, the Gateway camp - and presumably any rival bidder - is still awaiting publication of the revised offer document from Isoceles. The new terms, which provide a cash and paper alternative as the cash option of 210p per Gateway share, were announced last Tuesday, but the formal document - described by the Isoceles camp as complex to prepare - has yet to emerge.

Tengelmann's name has circulated as a possible rival to Isoceles since the bid battle started. It is widely accepted that none of the main UK food retail groups could yet be involved in the Gateway situation, even if they wished because of monopoly problems.

The privately-owned West German retailing chain owned and run by Mr Erwin Haub, has over 4800 stores around the world, with sales of just under DM35m in the 1987-8 financial year, up from DM30m the previous year.

The group has been interested in further foreign expansion, partly as a result of strict monopoly constraints in Germany and the very tough building legislation which has severely restricted its ability to set up new supermarkets.

"We will have to limit ourselves in West Germany and look increasingly for expansion abroad," said Mr Haub at the group's press conference last December.

At present, Tengelmann generates about 57 per cent of its sales from foreign business, principally the US. Its largest foreign operation remains its 52 per cent holding in A & P, the US supermarket group, acquired in 1973.

Back on the bid front, meanwhile, Tuesday represents "day 39" of the offer, the last date on which Gateway can make new financial information available. Mr Monk has already said that he will write to shareholders, "demonstrating why 210p is inadequate."

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Think about it. Each one of your people has been hand-picked, trained at your expense and well paid to do a job of work. But how much do they really know? Could they tell you (to a percentage point or two) your major competitor's market share? Are they au fait with international developments? Are they chued up on your customers' company reports. The chances are, they're not. But to be fair, that's not what you pay your staff to do. You pay them to manage, to make decisions, to do their jobs to the best of their abilities. And nowhere in their job descriptions does it say anything about sitting down - for hours on end - reading through newspapers, periodicals and business publications simply to keep in touch. It's not their job. But it is ours. We at McCarthy Information are geared up purely and simply to gather information on your behalf. We have a team of experienced researchers who are as well read a bunch of people as you could ever wish to meet. They read The Financial Times, they read the Guardian, the Economist and Investor's Chronicle. They read Newsweek, they read The Times and the Wall St. Journal. Then, when they've finished those, they go on to read all the etceteras and so-ons you could possibly think of. (As well as some which may never have crossed your mind - let alone crossed your desk.)

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**NOTICE TO HOLDERS**

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(as successor to IU International Capital Corporation N.V.)

**U.S.\$85,000,000 Retractable Floating Rate Notes due 1992**

NOTICE IS HEREBY GIVEN that in accordance with the Conditions of the above described Notes (the "Notes"), IU International Capital Corporation (the "Company") hereby calls for redemption on 31st July 1989 all the Notes at 100 per cent. of their principal amount.

Payment of the redemption price will be made upon presentation and surrender of the Notes and all unattached coupons appertaining thereto at any of the Paying Agents set forth below:

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D-6000 Frankfurt/Main 1  
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For and on behalf of  
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UK COMPANY NEWS

Dissident voice at Chloride may arouse holders

By Nikki Tail

SHAREHOLDER discontent seems set to surface at the extraordinary general meeting of Chloride, the batteries group, this Friday. The meeting has been called to approve the sale of Chloride's motive power business to Compagnie Generale d'Electricite, for £55m.

Evolving Polly Peck seeks new listings

By John Thornhill

POLLY PECK International, the agricultural, electronics and textiles group, headed by Mr Asil Nadir, which was reported to have been hit by a boardroom row, is to seek stock market listings in continental Europe.

A question of compensation disclosure

Robert Rice on the secrecy surrounding the recent pay-off to the chairman of Next

THE REFUSAL by the Next board to reveal the size of the compensation payments made to Mr George and Mrs Liz Davies, who were ousted from the retail group last December, has led to a certain amount of indignation and concern among shareholders.

It also poses the question of what obligations there are on companies to make public such information. For in contrast to Next's secrecy, many British businesses publish details of compensation payments, usually in a footnote to the annual report.

Concerned about the accountability of directors, and feeling that shareholders' rights were somehow being trampled on, Mr Gordon, and Mr Pat Hammond-Turner, a former assistant managing director at CES, voted unsuccessfully against the re-election of the Next board.

But on Friday Mr Gordon said he had no plans to take the matter further. He had spoken after the meeting to Mr David Jones, Next's chairman, who had been able to reassure him about the deal. By all accounts, he said, the Next board had done a pretty good deal and the settlement to Mr and Mrs Davies was low.



George and Liz Davies, who were ousted from the board of Next last December

by his recent deal with Asda, the supermarkets group. But what rights, if any, do shareholders have to be informed of the size of any compensation payment made?

contract or by way of pension in respect of past services. It is on this basis that some companies have not put compensation payments to shareholders for approval.

less, 10 per cent of the company's asset value without shareholders' approval. For this purpose, acquiring a non-cash asset includes discharging a person's liability and arguably even that of the company itself.

Section 320 may not have been designed to catch bona fide compensation payments. But would it give Next shareholders, if they chose to pursue it, the leverage they would need to force disclosure of the Davies payments? And could the shareholders hold the directors personally liable to repay the money, if the payment could not be retrospectively approved by the company in a general meeting?

the director was dismissed from the board, and his executive functions and the payment was expressed as an out-of-court settlement to a claim, or the threat of a claim for damages for wrongful dismissal.

If this was the case, it would seem perfectly plausible for the Next directors to argue that they were not obliged to seek shareholders' approval for the compensation settlement, because it was reached after Mr and Mrs Davies had ceased to be directors, and was made on an out-of-court basis in the light of their threat to sue the company from here to eternity and back for breach of contract.

Varley explains Coalite strategy

By David Waller

Mr ERIC Varley, the former Labour minister who is now chairman of Coalite, yesterday set out his strategy in the face of a £427m bid from Anglo United, a much smaller company which is also based in Derbyshire.

ing, waste management, vehicle distribution and building supplies. We would be delighted in our responsibilities to our shareholders if we didn't have more than one leg, particularly when we are heavily exposed to the declining fuel industry," he said.

ness with that of Coalite, selling off all the other activities in order to pay off the debt incurred on the deal.

Salvesen contract at Safeway

By John Thornhill

CHRISTIAN Salvesen, the Edinburgh-based food distributor, has won a management contract to run a retail distribution centre at Bells Hill, Glasgow, for Safeway, the supermarket group.

Tranwood associate in £2.5m subscription plan

By Vanessa Houlder

ANALYSIS, an unquoted associate of Tranwood, the USM-traded financial services houses, has launched a £2.5m offer for subscription. The offer, which capitalises the company at £11.13m, follows a £2m institutional placing completed last week.

SHARE STAKES

Property Trust: Gillon Holdings sold 150m ordinary shares and no longer has a notifiable interest.

redeemable preference shares into a like number of ordinary. Interest in the ordinary now 3.32m shares (22.3 per cent).

Edbro rises 45% Edbro, engineer, lifted profits 45 per cent to £4.2m in the year to March 31 on sales up 19 per cent to £31.5m. A final dividend of 8p makes 11p (9p).

NOTICE TO HOLDERS OF Lorimar Telepictures Corporation

Warner Communications Inc. ("WCI"), the parent corporation of Lorimar Telepictures Corporation ("Lorimar"), has entered into an Agreement and Plan of Merger dated as of March 3, 1989, as amended and restated as of May 15, 1989 (the "Merger Agreement").

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interim or final and the subsequent dates are based mainly on last year's final dates.

U.S. \$50,000,000 IBM Credit Corporation Floating Rate Yen Linked Notes due 1995

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Table with columns: Capitalization, Company, Price, Change on week, Div (ps), Yield % P/E

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FINANCIAL TIMES STOCK INDICES Table with columns: Jun 2, Jun 1, May 31, May 30, May 26, May 25, High, Low, Since Completion

DIARY DATES

PARLIAMENTARY

Today
Lords: Electricity Bill, Motion on Magistrates Courts (Remands in Custody) Order.
Tomorrow
Commons: Employment Bill, conclusion of remaining stages.

Hong Kong Witness: Sir David Wilson, Governor of Hong Kong. (Grand Committee Room, Westminster Hall, 10.30 a.m.)
Agriculture: subject, the new beef premium. Witness: Agriculture Ministry, Department of Agriculture for Northern Ireland, Meat and Livestock Commission. (Room 20, 10.45 a.m.)

Trade Fairs and Exhibitions: UK

June 6-8 Enterprise and the North West - Opportunities for Action Conference and Exhibition, (01-642 7688)
G-MEX Centre, Manchester
June 6-9 Screen Print and Screen Print Wear '89 (01-340 3291) NEC, Birmingham

Overseas Exhibitions

June 9-18 International Air Show (01-225 5566) Paris
June 12-15 INTERKONIT/INTERWEAVE Exhibition (01-729 0677) NEC, Birmingham
June 14-16 Electrical Products Exhibition NEC, Birmingham

Business and management conferences

June 5-6 Business Research International: Structuring and financing acquisitions (01-837 8363) Cafe Royal, London
June 5-6 The British Institute of Energy Economics: Fourth annual North Sea conference (01-897 3707) Whitehall

CONSTRUCTION CONTRACTS

Glasgow shopping centre

SIR ROBERT MCALPINE CONSTRUCTION MANAGEMENT has been appointed construction manager for the £100m Buchanan Centre, a shopping development in Glasgow, being undertaken by the Buchanan Centre Partnership formed between Bredero Properties and Grosvenor Square Properties.

Country club and hotel at Loch Lomond

HALL & TAWSE GROUP has nearly £26m worth of orders. Work has begun on a 55.5m hotel and country club for Craigmaddoch at Cameron Park, Loch Lomond.

New HQ for Pearl

WIMPEY CONSTRUCTION UK is to build new corporate headquarters for Pearl Assurance in Peterborough at a cost of £7.5m. Work starts on June 19, for completion by the end of 1991.

Jones wins £25m orders

J.M. JONES CONSTRUCTION GROUP has won contracts worth more than £25m. The orders span a variety of buildings, including speculative office developments, hi-tech industrial, retail and even ecclesiastical.

Extending Royal Marsden Hospital

ALFRED MCALPINE CONSTRUCTION is to build an 8.4m extension to the Royal Marsden Hospital, London. The four-storey building with underground will be erected on a 2.5-acre site.

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Rebuilding Scottish barracks

M.J. GLEESON GROUP is to reconstruct Dregtham Barracks at a cost of over £20m for the Property Services Agency (Scotland). It was built on the outskirts of Edinburgh in 1940.

Sports centre at Berkhamsted

LOVELL CONSTRUCTION has been awarded a £3.8m design and build contract for a sports centre at Berkhamsted, Herts, for Dacorum Borough Council.

FINANCIAL

TODAY
COMPANY MEETINGS
Eastern Cheshire Quases Hotel, City Square, Leeds, 11.30
Hendon Macmillan, Le Marston Hotel, 21, Plover Close, 11.30

Friday June 9
COMPANY MEETINGS
Anglo American, 7, Bedford Square, W.C.1, 12.30
Deves & Newman, Queens Hall, 8, Montagu Square, W.1, 12.30

cricketall?
down the line
The Financial Times proposes to publish this survey on:
6th July 1989
For a full editorial synopsis and advertisement details, please contact:
Joanna Dawson on 01-873 3269 or write to her at:
Number One Southwark Bridge London SE1 9HL

SPANISH BANKING Finance & Investment
The Financial Times proposes to publish this survey on:
22nd June 1989
For a full editorial synopsis and advertisement details, please contact:
Mr Richard Oliver on Madrid 577 09 09 or write him at Financial Times Serrano 58, 28001 Madrid Fax number: Madrid 564 18 92

FINANCIAL TIMES
LONDON'S BUSINESS NEWSPAPER

PROPERTY INVESTMENT & FINANCE
The Financial Times proposes to publish this survey on:
6th July 1989
For a full editorial synopsis and advertisement details, please contact:
Joanna Dawson on 01-873 3269 or write to her at:
Number One Southwark Bridge London SE1 9HL

C&G Cheltenham & Gloucester Building Society
£125,000,000
Floating Rate Notes due 1994
In accordance with the provisions of the Notes, notice is hereby given that the Rate of Interest for the three month period ending 30th August, 1989 has been fixed at 14 1/2% per annum.

To the holders of Mortgage Capital Trust I
Collateralized Mortgage Obligations, Series A
Class A-1 Bonds Due 1st June, 2017
Notice is hereby given that the interest rate on the Class A-1 Bonds for the interest period 1st June, 1989 through 1st September, 1989 is 10.1625% per annum.

NOTICE OF REDEMPTION
Commercial Intertech Corp.
(Formerly Commercial Shearings, Inc.)
6% Convertible Subordinated Debentures Due 2001
ISIN No. GB 0042133438
CONVERSION PRIVILEGE EXPIRES AT 5:00 P.M. EASTERN TIME (UNITED STATES) ON JULY 5, 1989
NOTICE IS HEREBY GIVEN that, at 5:00 p.m. Eastern Time (United States) on July 5, 1989 (the "Redemption Date"), pursuant to Section 1001 of the Indenture...

FT UNIT TRUST INFORMATION SERVICE

For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

AUTHORISED UNIT TRUSTS

Table listing various unit trusts under the 'AUTHORISED UNIT TRUSTS' section, including names like Abbey Unit Trust, Abnott Unit Trust, and others.

Table listing unit trusts under the 'Abnott Unit Trust' section, including Abnott Unit Trust, Abnott Unit Trust, and others.

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GUIDE TO UNIT TRUST PRICING. This section provides detailed information on how unit trust prices are calculated, including details on net asset value, unit price, and the impact of charges and taxes.

FT UNIT TRUST INFORMATION SERVICE

For Current Unit Trust Prices on any telephone ring direct 0636 4 4 five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

Main table of unit trusts with columns for Name, Price, and other details. Includes sections for 'OTHER UK UNIT TRUSTS' and various insurance-related trusts.

INSURANCES

Table of insurance companies and their unit trusts, including details on policies and prices.

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

For Current Unit Trust Prices on any telephone ring direct-0636 4 + five digit code (listed below). Calls charged at 33p per minute peak and 25p off peak, inc VAT

Main table containing unit trust information with columns for Name, Price, Yield, and other financial metrics. Includes sub-sections for 'MANAGEMENT SERVICES' and 'OFFSHORE AND OVERSEAS'.

MANAGEMENT SERVICES

David M. Aarons (Personal Fin. Pln.) Ltd
11 Avenue Road, London W1A 2AA
Tel: 01-499 4444

OFFSHORE AND OVERSEAS

The Analysis Group PLC
100 Victoria Road, London W1A 2AA
Tel: 01-499 4444

GUERNSEY (SB REGISTERED)

Guernsey Investment Management (Guernsey) Ltd
PO Box 242, St Peter Port, Guernsey
Tel: 01473 2424

LUXEMBOURG (SB REGISTERED)

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PO Box 242, St Peter Port, Guernsey
Tel: 01473 2424

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FT UNIT TRUST INFORMATION SERVICE

Table listing various FT Unit Trusts, including categories like Equity, Bond, and Money Market, with columns for Name, Price, and Yield.

LONDON SHARE SERVICE

Table listing London Share Service, including categories like British Funds, Commonwealth & African Loans, Foreign Bonds & Rails, and Money Market Bank Accounts, with columns for Name, Price, and Yield.

LONDON SHARE SERVICE

For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 36p per minute peak and 25p off peak, inc VAT

AMERICANS - Contd

Table listing American stocks with columns for Stock, Price, Bid, Offer, and Dividend. Includes companies like American Express, American International Group, and American Overseas Corp.

BUILDING, TIMBER, ROADS - Contd

Table listing building, timber, and roads stocks with columns for Stock, Price, Bid, Offer, and Dividend. Includes companies like Bovis Lend Lease, Bovis Lend Lease Group, and Bovis Lend Lease PLC.

DRAPERY AND STORES - Contd

Table listing drapery and stores stocks with columns for Stock, Price, Bid, Offer, and Dividend. Includes companies like Debenhams, Debenhams Group, and Debenhams PLC.

ENGINEERING

Table listing engineering stocks with columns for Stock, Price, Bid, Offer, and Dividend. Includes companies like Balfour Beatty, Balfour Beatty Group, and Balfour Beatty PLC.

INDUSTRIALS (Misc.) - Contd

Table listing industrial stocks with columns for Stock, Price, Bid, Offer, and Dividend. Includes companies like British Airways, British Airways PLC, and British Airways Group.

INDUSTRIALS (Misc.) - Contd

Table listing industrial stocks with columns for Stock, Price, Bid, Offer, and Dividend. Includes companies like British Airways, British Airways PLC, and British Airways Group.

CANADIANS

Table listing Canadian stocks with columns for Stock, Price, Bid, Offer, and Dividend. Includes companies like Alcan, Alcan Group, and Alcan PLC.

ELECTRICALS

Table listing electrical stocks with columns for Stock, Price, Bid, Offer, and Dividend. Includes companies like British Telecom, British Telecom Group, and British Telecom PLC.

FOOD, GROCERIES, ETC

Table listing food, groceries, and other stocks with columns for Stock, Price, Bid, Offer, and Dividend. Includes companies like Asda, Asda Group, and Asda PLC.

INDUSTRIALS (Misc.) - Contd

Table listing industrial stocks with columns for Stock, Price, Bid, Offer, and Dividend. Includes companies like British Airways, British Airways PLC, and British Airways Group.

INDUSTRIALS (Misc.) - Contd

Table listing industrial stocks with columns for Stock, Price, Bid, Offer, and Dividend. Includes companies like British Airways, British Airways PLC, and British Airways Group.

INDUSTRIALS (Misc.) - Contd

Table listing industrial stocks with columns for Stock, Price, Bid, Offer, and Dividend. Includes companies like British Airways, British Airways PLC, and British Airways Group.

BANKS, HP & LEASING

Table listing bank, HP, and leasing stocks with columns for Stock, Price, Bid, Offer, and Dividend. Includes companies like Bank of America, Bank of America Group, and Bank of America PLC.

CHEMICALS, PLASTICS

Table listing chemical and plastic stocks with columns for Stock, Price, Bid, Offer, and Dividend. Includes companies like British Chemicals, British Chemicals Group, and British Chemicals PLC.

DRAPERY AND STORES

Table listing drapery and stores stocks with columns for Stock, Price, Bid, Offer, and Dividend. Includes companies like Debenhams, Debenhams Group, and Debenhams PLC.

HOTELS AND CATERERS

Table listing hotel and catering stocks with columns for Stock, Price, Bid, Offer, and Dividend. Includes companies like British Hotels, British Hotels Group, and British Hotels PLC.

INDUSTRIALS (Misc.) - Contd

Table listing industrial stocks with columns for Stock, Price, Bid, Offer, and Dividend. Includes companies like British Airways, British Airways PLC, and British Airways Group.

INDUSTRIALS (Misc.) - Contd

Table listing industrial stocks with columns for Stock, Price, Bid, Offer, and Dividend. Includes companies like British Airways, British Airways PLC, and British Airways Group.

BEERS, WINES & SPIRITS

Table listing beer, wine, and spirit stocks with columns for Stock, Price, Bid, Offer, and Dividend. Includes companies like British Beers, British Beers Group, and British Beers PLC.

BUILDING, TIMBER, ROADS

Table listing building, timber, and roads stocks with columns for Stock, Price, Bid, Offer, and Dividend. Includes companies like Bovis Lend Lease, Bovis Lend Lease Group, and Bovis Lend Lease PLC.

INDUSTRIALS (Misc.) - Contd

Table listing industrial stocks with columns for Stock, Price, Bid, Offer, and Dividend. Includes companies like British Airways, British Airways PLC, and British Airways Group.

INDUSTRIALS (Misc.) - Contd

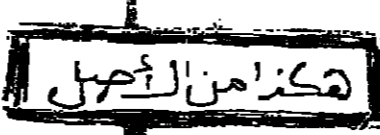
Table listing industrial stocks with columns for Stock, Price, Bid, Offer, and Dividend. Includes companies like British Airways, British Airways PLC, and British Airways Group.

INDUSTRIALS (Misc.) - Contd

Table listing industrial stocks with columns for Stock, Price, Bid, Offer, and Dividend. Includes companies like British Airways, British Airways PLC, and British Airways Group.

INSURANCES

Table listing insurance stocks with columns for Stock, Price, Bid, Offer, and Dividend. Includes companies like British Insurance, British Insurance Group, and British Insurance PLC.



LONDON SHARE SERVICE

For Latest Share Prices on any telephone ring direct-0698 43 + four digit code (listed below). Calls charged at 50p per minute peak and 25p off peak, inc VAT

INSURANCES - Cont'd. Table listing various insurance companies and their share prices.

LEISURE. Table listing leisure-related companies and their share prices.

MOTORS, AIRCRAFT TRADES. Table listing companies in the motor and aircraft trade sectors.

Commercial Vehicles. Table listing companies dealing in commercial vehicles.

Garages and Distributors. Table listing garage and distributor companies.

NEWSPAPERS, PUBLISHERS. Table listing newspaper and publishing companies.

PAPER, PRINTING, ADVERTISING. Table listing companies in the paper, printing, and advertising industries.

SOUTH AFRICANS. Table listing South African companies.

PAPER, PRINTING, ADVERTISING - Cont'd. Continued list of paper, printing, and advertising companies.

PROPERTY. Table listing property-related companies.

Investment Trusts. Table listing various investment trusts.

SHIPPING. Table listing shipping companies.

SHOES AND LEATHER. Table listing shoe and leather companies.

TEXTILES. Table listing textile companies.

TOBACCO. Table listing tobacco companies.

TRUSTS, FINANCE, LAND. Table listing trusts, finance, and land companies.

Finance, Land, etc. Table listing a wide range of financial and land-related companies.

TRUSTS, FINANCE, LAND - Cont'd. Continued list of trusts, finance, and land companies.

TRUSTS, FINANCE, LAND. Another section for trusts, finance, and land companies.

Oil and Gas. Table listing oil and gas companies.

OIL AND GAS - Cont'd. Continued list of oil and gas companies.

OVERSEAS TRADERS. Table listing overseas trading companies.

PLANTATIONS. Table listing plantation companies.

MINES. Table listing mining companies.

Central Africa. Table listing companies in Central Africa.

Australians. Table listing Australian companies.

MINES - Cont'd. Continued list of mining companies.

Miscellaneous. Table listing various miscellaneous companies.

THIRD MARKET. Table listing third market trading activities.

Central Rand. Table listing companies in the Central Rand region.

Far West Rand. Table listing companies in the Far West Rand region.

Diamond and Platinum. Table listing diamond and platinum related companies.

REGIONAL & IRISH STOCKS. Table listing regional and Irish stocks.

TRADITIONAL OPTIONS. Table listing traditional options.

CURRENCIES, MONEY AND CAPITAL MARKETS

CURRENCIES AND MONEY REVIEW

Bank neatly sidesteps a difficult decision

A NEAT sidestep and some dazzling ball control was the reaction in the City to the Bank of England's performance on the London money market last week.

This was particularly evident on Thursday. When dealers looked at the factors likely to influence the market that day they were confident of a substantial day-to-day credit shortage, possibly running as high as £500m.

There was therefore some incredulity when the Bank of England forecast a flat credit position, but it soon became obvious that this simply meant the authorities had no intention of operating in the market before the result of the West German Bundesbank's council meeting was known.

The Bank of England could in effect sit on its hands. If a shortage had been forecast and the authorities had offered to buy bills during the morning the dealing rates would have been taken as a signal on base rates.

It has been said that relationships within the Group of Seven main industrial nations are perhaps not too cordial at present. This is partly a reflection of the recent strength of the dollar - putting upward pressure on inflation in other countries - and suggestions that the US is more committed to the idea of G7 when the dollar is falling. But it also points to a lack of willingness to cooperate on many matters, both political and economic, among the European nations.

The Bundesbank was therefore perhaps unlikely to give any helpful clues to the Bank of England on the outcome of its council meeting, leaving the UK central bank to worry and wonder. Under the circumstances it was quite understandable that the Bank of England dodged the issue on interest rates until it was more confident that sterling was not about to suffer another sharp blow. The pound has fallen by

about 5 per cent since the beginning of the year, and on the Treasury's economic model this leads to a rise of 1 per cent in inflation after a year.

At almost the same time that the Bundesbank announced no change in its credit policies - after a period of nervousness that German rates were about to be pushed higher - the Bank of England revised the London credit position to a shortage and bought bills at an unchanged rate.

This was a signal that base rates could remain at 14 per cent, but still left the market suspecting that if the Bundesbank had announced a rise in its discount or Lombard rates the Bank of England would have moved quickly to protect the pound with another upward twist in the interest rate spiral.

US employment data on Friday again looked for further guidance on interest rates, but in the event there was no sign the Federal Reserve was

about to emulate the US cavalry and ride to the assistance of the beleaguered pound, or any other foreign currency.

US non-farm payrolls in May rose by only 101,000, against forecasts of 200,000. This weak result encouraged hopes that the Federal Reserve would ease its monetary stance. The Southwest Bank of St Louis, a US provincial bank, cut its prime lending rate by 1/4 per cent to 11 per cent, but there was still no sign that the Fed is adopting a more accommodative view on interest rates.

Liquidity was drained from the New York banking system on Friday, via matched sales. This scotched hopes of an immediate cut in US interest rates, but as far as the UK is concerned last week's events, on the international stage, did not increase pressure on sterling and may have given the authorities a little breathing space on base rates.

Colin Millham

2 IN NEW YORK CURRENCY RATES Table with columns for Date, Close, Previous Close, and various currency rates.

CURRENCY MOVEMENTS Table showing percentage changes for various currencies like Sterling, US Dollar, etc.

OTHER CURRENCIES Table listing exchange rates for currencies like Australia, Canada, etc.

EURO CURRENCY INTEREST RATES Table showing interest rates for various Euro currencies.

EXCHANGE CROSS RATES Table showing cross rates between various currencies.

POUND SPOT-FORWARD AGAINST THE POUND Table showing forward rates for the pound.

DOLLAR SPOT-FORWARD AGAINST THE DOLLAR Table showing forward rates for the dollar.

FT LONDON INTERBANK FIXING Table showing interbank fixing rates.

MONEY MARKETS Table showing money market rates.

MONEY RATES Table showing money rates.

LONDON MONEY RATES Table showing London money rates.

WEEKLY CHANGE IN WORLD INTEREST RATES Table showing weekly changes in interest rates.

INTEREST RATES finished on a steady note in London last week. Three-month interbank closed at 14 per cent, in line with the present level of UK bank base rates. This was a rise of 1/4 per cent from the previous Friday, but was well below the levels touched earlier in the week when rumours circulated about a major row on economic policy between Mrs Margaret Thatcher, the Prime Minister, and Mr Nigel Lawson, the Chancellor.

that the differential between short term rates in London and yields on long term British Government bonds narrowed. The international situation took the pressure off short term rates by the end of the week, while the suggestion that the Treasury is to cut back on the programme of gilt repurchases pushed up longer term gilt yields.

There were several reasons to believe the Bundesbank would not raise rates last week, including the failure of the dollar to establish a level above DM2.00 and a net inflow of liquidity to the Frankfurt banking system at last week's Bundesbank securities repurchase agreement tender.

The market was not surprised when the Bundesbank council left rates unchanged, but the threat of inflation remains a worry and a tightening of monetary policy can not be ruled out within the next month or so.

BCCI FINANCE N.V. U.S. \$50,000,000 Guaranteed Floating Rate Notes due 1990. Notice is hereby given pursuant to the Terms and Conditions of the Notes that for the six months from 5 June 1989 to 5 December 1989 the Notes will bear an interest rate of 9 3/4% per annum with a coupon amount of U.S.\$495.23 London & Continental Bankers Limited Agent Bank

BANK OF ENGLAND TREASURY BILL TENDER Table with columns for Bill on offer, Total applications, Total allocated, etc.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

Table of FT-Actuaries World Indices showing various indices like Australia, Austria, Belgium, etc. with columns for US Dollar Index, % change since Dec 30 '88, etc.

Base values: Dec 31, 1988 = 100; Finland: Dec 31, 1987 = 116.07 (US \$ Index), 90.79 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.85 (US \$ Index), 114.45 (Pound Sterling) and 123.22 (Local).

EUROPEAN OPTIONS EXCHANGE

Table of European Options Exchange showing various options like EUR Index, EUR 100, etc.

BASE LENDING RATES

Table of Base Lending Rates showing rates for various banks like City Merchants Bank, etc.

LONDON RECENT ISSUES Table showing recent issues of equities.

JOTTER PAD

EQUITIES

Table of Equities showing various stocks like F.P., F.P., etc.

CROSSWORD

Crossword puzzle grid with clues: 1 Enraptured railway guard (5), 4 This led Mrs Gandhi to be a queen in her own country (6), etc.

FIXED INTEREST STOCKS

Table of Fixed Interest Stocks showing various stocks like F.P., F.P., etc.

RIGHTS OFFERS

Table of Rights Offers showing various offers like F.P., F.P., etc.

WORLD STOCK MARKETS

Table of World Stock Markets including sections for Australia, France, Germany, Italy, Japan, and New York. Each section lists various stocks with their prices and changes.

CANADA

Table of Canadian Stock Markets including Toronto and Montreal sections. Lists various Canadian stocks with prices and changes.

NEW YORK DOW JONES

Table of New York Dow Jones indices showing various market indices and their values.

Table of Japanese Stock Markets listing various Japanese stocks and their market performance.

CANADA

Table of Canadian Stock Markets including Toronto and Montreal sections.

NEW YORK ACTIVE STOCKS

Table of New York Active Stocks listing various active stocks and their prices.

TOKYO - Most Active Stocks

Table of Tokyo Most Active Stocks listing various active Japanese stocks.

AMEX COMPOSITE PRICES

Table of AMEX Composite Prices listing various stocks and their prices on the American Stock Exchange.



NYSE COMPOSITE PRICES

Table of NYSE Composite Prices listing various stocks with columns for High, Low, and other market data.

Notes and footnotes explaining the data presented in the NYSE Composite Prices table, including details on bid-ask spreads and market conditions.

OVER-THE-COUNTER

Monday national market, 4pm prices June 2

Table of Over-the-Counter prices listing various stocks with columns for High, Low, and other market data.

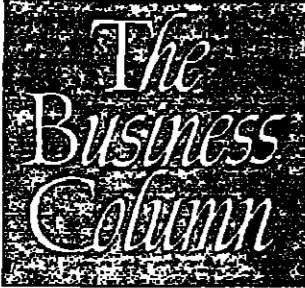
Notes and footnotes explaining the data presented in the Over-the-Counter table, including details on bid-ask spreads and market conditions.

Advertisement for Iberia: 'Travelling by air on business with Iberia? Enjoy reading your complimentary copy of the Financial Times when you are travelling on scheduled flights from... Madrid and Barcelona.'

Advertisement for FT Bristol: 'Companies based in Wales and the South West can now contact Clive Radford in the FT's Bristol office for more information about advertising in the FT or for a programme of forthcoming regional surveys.'

Advertisement for Hyatt Regency Brussels: 'It's attention to detail like providing the Financial Times to business guests, that makes a great hotel. Complimentary copies of the Financial Times are available for business guests staying at the Hyatt Regency in Brussels.'

Advertisement for Financial Times: 'It's attention to detail. The Financial Times is a business newspaper. It's attention to detail is what makes it a great business newspaper.'



Dilemma of giving the teams their due

The telecommunications company GTE has just introduced a new payments system at one of its US factories which attempts to overcome what could become an increasingly sharp dilemma for many employers: the tension between introducing more collaborative teamworking and performance related pay. Many companies are increasingly introducing teamworking to break down traditional demarcation lines between skilled and unskilled, blue and white-collar workers. GTE is pursuing this approach not only on the shopfloor, but also in management. The company's extensive employee involvement programme has led to the formation of project teams, problem solving teams, and cross-functional teams, incorporating managers, supervisors and shopfloor workers, as well as shopfloor teamworking. Teamworking can produce a measurable increase in productivity through promoting flexibility between different grades of workers. Teams involving managers and shopfloor workers can apply a wider range of expertise to solving problems such as plant layout. The collaboration inherent in teamworking also breeds a loyalty and team spirit, which brings efficiency gains over and above flexibility. Mr Bruce Carswell, GTE's vice president for human resources, says: "We have to involve people more in designing rules and fashioning objectives. From that involvement we get greater commitment. The whole idea of employee involvement and teaming will be vital to the way we work in future." Yet this imperative to raise efficiency and quality through teamworking has to contend with a second imperative: to reform payment systems so people are paid more according to their performance.

An atomised workforce

Most performance-related pay schemes, especially those introduced recently in the UK, link rewards to appraisals of an individual's performance. Taken to its logical conclusion individual performance-related pay would atomise the workforce rather than bringing it together in collective effort. Thus it could undermine the basis for the efficiency gains of collaborative teamworking. Mr Carswell says: "With teamworking we are moving towards a situation where it will become increasingly difficult to isolate the individual contribution of a single worker; it will be more difficult for an individual on their own to make a dramatic difference to performance." To overcome this, GTE is piloting a team-based payment system which is also linked to performance. Staff at one of its factories have been grouped into teams, which will be paid according to a competitiveness index rather than a cost of living index. The team's pay is linked to how well it relates to cost and quality targets drawn up in relation to the company's main competitors such as General Electric. The spread of teamworking should break down the traditional boundaries of collective bargaining. Pay deals struck for entire factories or companies could be replaced by performance systems linked to the performance of smaller work units. This may create problems for unions. But it should also set union criticisms of performance-related pay on a new footing. A modernising union movement could easily put itself on the side of efficiency by supporting the new collectivism of teamworking, and insisting that individual performance should play only a limited role. The future of payment systems may turn on the debate between collective and individual approaches. But it is not simply a debate between the old collective approach of unions and the new individualistic approach of 1980s managers. The most important tension will be within new approaches to human resource management - between the new collectivism of teamworking and the new individualism of performance-related pay.

Charles Leadbeater

Listening to Rand Araskog, chairman and chief executive officer of ITT, it is sometimes easy to get the impression that he is a man on a moral crusade. "It would be a little bit silly to say that I am puritanical," he says. "But I do feel very strongly about ethics in American business. I think that if business leaders won't be outspoken any more, for right and for ethics, they are making a mistake." Such sentiments could hardly be in sharper contrast with the image which ITT projected to the world 15 years ago, when it was embroiled in damaging scandals over its alleged implication in Watergate and in the Central Intelligence Agency's efforts to unseat the Allende government in Chile. But much has changed since then. ITT, which once seemed bent on endlessly expanding its worldwide empire by piling takeover on takeover, has been forced by financial adversity to make a series of asset sales which have slimmed it down to more manageable - though still substantial - size. Furthermore, Mr Araskog, a West Point graduate with a reserved, slightly earnest demeanour, is out of a wholly different mould from Harold Geneen, the wily and manipulative conglomerate ruler who presided over ITT's headlong growth in the 1960s and 1970s. Probably most important of all, Mr Araskog has taken what it is like for a company to be turned from hunter into prey. The lesson was painfully learned in the mid-1980s, when he fought off two successive assaults by corporate raiders who appeared intent on taking ITT private and breaking it up. Recounting the experience in a newly published book\*, he rails repeatedly against the damage which, he believes, America's industrial economy has suffered at the hands of short-term financial markets and leveraged buyouts conducted by what he calls "conscienceless, occasionally corrupt, speculators." Repugnant as Mr Araskog finds the raiders, he says, it is their motivation which really galls him. In his eyes they are simply playing a giant game, aimed at satisfying their greed at the expense of managements and employees. His resentment at the unfairness of all this is shown through when describing Jay Pritzker, the Chicago financier who raided ITT's shares in 1984. "The Pritzker family fortune had been built by Jay's father, and Jay had known nothing but great wealth and growth set up on a Minnesota farm in the depression days. I worked my way up the hard way, through

THE MONDAY INTERVIEW

The shift from hunter to prey

Guy de Jonquieres talks to Rand Araskog, head of ITT

government, Honeywell and ITT, and I resented the idea that a guy with inherited money could walk in and destroy the career I had built - and do it with nonchalance and indifference." Too many people, he complains, have wrongly regarded the raiders as Robin Hoods: "They have benefited terrifically by attacking the establishment. So many Americans have basically believed that a lot of businessmen are not what they're supposed to be - that they're dishonest, that they're taking advantage of other than what they are representing." "Though Mr Araskog thinks the leveraged buyout fashion has probably passed its peak in the US, partly because of unfavourable tax treatment, he is equally scornful of hostile takeovers launched by bona fide corporate bidders. He worries that this trend is showing dangerous signs of getting out of hand in Europe. "Maybe it's interesting fun to see Siemens and GEC going after Plessey. But when I first heard about it, I was appalled," he says. "Where is all this activity that we're having in the US going to start in Europe? I hope not, and I hope somebody stops it." There is a certain irony in these strictures. After all, ITT's growth in its glory days depended heavily on the charming financial markets into supporting continued takeovers, albeit invariably friendly ones. Though Harold Geneen made much of supposed "synergy" between its diverse range of assets, his claim was hardly borne out by their patchy performance after acquisition. Indeed, Mr Araskog's description of the problems bedeviling ITT after Mr Geneen stepped down in 1977 sound curiously reminiscent of the file which he attributes to leveraged buyouts: a ruinous mountain of debt, lack of actively committed management and no coherent strategy for developing the business. When Mr Araskog took over as chief executive in 1979, ITT was having to sell assets just to pay dividends.



'It would be a little bit silly to say that I am puritanical'

On top of all that, ITT was burdened with a bloated bureaucracy. Mr Araskog recalls that one executive "was in charge of researching food on the Queen Elizabeth II, while another was charged with seeing how many places in the world he could visit and still be reached by telephone." Mr Araskog concedes that the earlier excesses of the conglomerate movement may have contributed to the emergence of leveraged buyouts. While critical of the Geneen style, he remains doggedly loyal to Geneen the man, whom he depicts as a lonely and vulnerable figure towards the end of his reign. Nor, he insists, did the threat of takeover give ITT any added incentive to put its house in order. It was already shaking up its management and had decided to sell off \$1.7bn of assets when the threat materialised, though at the instance of one of the raiders it brought forward slightly the announcement of the planned sale. None the less, Mr Araskog has since revealed that in the heat of the battle ITT did begin what seemed suspiciously like a search for a white knight. It discussed possible mergers with two US computer companies, Burroughs and Sperry, (which themselves later merged to form Unisys) before flirting briefly with the office systems supplier, Wang. None of the talks got anywhere, partly because ITT felt it was bargaining from a position of weakness. Mr Araskog recalls with some distaste how the attitude of Michael Blumenthal, chairman of Burroughs, changed as pressure on ITT mounted. "When we first talked, it was before Irwin Jacobs (who staged the second raid on ITT) had bought his stock. But near the end, Blumenthal was a very different man. He was no longer so friendly and nice, he was really high pressure and not much different than Pritzker had been."

never have got such a good price." Having struggled free from the raiders' embrace and buoyed by recent improvements in profits, where does ITT head now? On Wall Street, the company is felt to lack a clear longer-term direction and some analysts would like to see further divestitures. However, Mr Araskog says that, except for Sheraton hotels, there is no division which could be sold for a high enough price to compensate for its contribution to profits and cash flow. "And I haven't been able to make any sense personally of selling Sheraton," he says. "You can get into a position of saying, look, if I'm going to sell one part, why not sell the whole place? I think ITT as a corporation makes sense." Yet its conglomerate structure looks curiously out of tune with the times. When many other companies have concluded that more is to be gained by concentrating on a few, tightly defined core activities, what is the logic of keeping under one corporate umbrella nine businesses as diverse as hotels, insurance, pumps, automotive compo-

The drawbacks of electronic tagging

Britain's Home Office is poised to inject a mechanical gimmick into the body of penal affairs. In a vain attempt to find a solution to the country's bulging prison population, an experiment is to begin shortly to test whether electronic tagging might provide the courts with an additional power to keep offenders out of prison. The Government's proposal, which first appeared in a green paper in 1988, is designed to subject selected persons to the process of "tracking." The offender is ordered to wear a small water-proof electronic monitor the size of a small calculator around the neck or underclothing. The monitor emits silent coded signals three hours to the nearest cellular radio station and thence to a central computer. The system is based on cellular "cells," each covering an area which ranges from a quarter of a mile to two miles, depending on the urban nature of the area. The presence of the tag-wearer is monitored to these cells. The tag-wearer's mobility is thus restricted to a given number of cells, in order to facilitate access to work and to other facets of a normal pattern of life. If the tag-wearer moves outside an authorised cell, the tag will emit audible signals and be noted simultaneously by the central computer. The essence of the device is the restriction on the tag-wearer's movements that would traditionally be the case of an offender on probation or on parole licence. The proposal has, predictably, found no favour with penal reform groups. It is characterised as imposing an element of prison-like conditions into the community without any corresponding likelihood that it would reduce the numbers of persons sent to prison. More critically, the electronic tagging is described as no more than a modernised form of the bail-and-chain. Unless Parliament were to restrict severely the range of persons who are liable to be imprisoned, electronic tagging will do nothing to assist the process of reducing the prison population. Some people, on the other hand, who are more sanguine about the prospects of effecting a welcome reduc-



enhanced probation service. The second conclusion was that tagging was an alternative to the "inequity of unconditional bail, or the preferred alternative to conditional bail, or as the alternative to the harshness of imprisonment for weeks or months pending trial, would appear to confer a real benefit on the hard-pressed prison system. But not otherwise. The researchers speculate that further research might indicate tagging as a highly favoured option for convicted offenders, if it is endorsed by Parliament and by sentences as an acceptable form of punishment. There lies the rub. The researchers do not take cognisance of the potential risk that electronic tagging offends a provision of the European Convention on Human Rights. Article 3 absolutely forbids any inhuman or degrading treatment or punishment. If electronic tagging could be seen to operate beneficially to both the offender and to the general public of crime prevention, it might escape the clutches of a legally guaranteed freedom. Contemporaneously with the Home Office proposals for Punishment in the Community, of which electronic tagging was one possible innovation, the Secretary of State for Scotland, Mr Malcolm Rifkind, warned against such developments when he addressed the Howard League in Scotland. Merely increasing the number of alternative disposals does not bring about any significant reduction in the use by the courts of imprisonment. New disposals are often used for those who in any case would not have been sentenced to prison. "That is why," concluded Mr Rifkind in his address to the Howard League, "our main objective is not widening further the range of non-custodial penalties, but our strengthening of the non-custodial disposals already available to the courts." On that basis, probation, enhanced by more resources from central government, and not electronic tagging, must be the preferred option. \* Howard Journal of Criminal Justice, May 1989. Published by Basil Blackwell for the Howard League for Penal Reform.

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\* The ITT Wars, published in the US by Henry Holt; \$19.95.